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# KEDI ECONOMIC SURVEY

## NOVEMBER 1984 ISSUE

President: Dr. Vladimir J. Simunek

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Editor and Assistant Writer: Diane L. Lewis

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CONTENTS

Page

0.00 INTRODUCTION
- 0.01 EXECUTIVE SUMMARY 1
- 0.02 OVERVIEW 2
- 0.03 ASSUMPTIONS 4
- 0.04 FORECAST HIGHLIGHTS 4

1.00 DETAILED FORECASTS
- 1.10 REAL GROWTH 6
- 1.20 PRICES AND NOMINAL GNP
  - 1.21 PRICES 8
  - 1.22 NOMINAL GNP 10
- 1.30 EMPLOYMENT AND LABOR 12
- 1.40 HOUSING AND AUTOMOBILES
  - 1.41 HOUSING 14
  - 1.42 AUTOMOBILES 16
- 1.50 BUDGETS 18
- 1.60 INCOME 20
- 1.70 MONEY AND CREDIT 22
- 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 24

2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED) 26

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 28

4.00 HISTORICAL DATA SOURCES 29

TABLES

- 0.00 KEDI FORECAST HIGHLIGHTS 3
- 1.11 SELECTED INDICATORS OF REAL GROWTH 5
- 1.12 REAL GNP 7
- 1.21 PRICES 9
- 1.22 NOMINAL GNP 11
- 1.30 EMPLOYMENT AND LABOR 13
- 1.41 HOUSING 15
- 1.42 AUTOMOBILES 17
- 1.50 BUDGETS 19
- 1.60 INCOME 21
- 1.70 MONEY AND CREDIT 23
- 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 25
- 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 28
- 3.00 HISTORICAL DATA SOURCES 29

This forecast uses the October 20, 1984, U.S. Department of Commerce first estimates of 1984:3 National Income and Product data. Also used is the October 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production,and the latest available data on prices, employment, industrial, and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

Growth will slow in 1985 because pent-up demand has been largely satisfied, the federal budget deficit size will be adding less to demand, and the business cycle of investment is passing its peak. REAL GROWTH Evidence of slowing continues with such areas as construction and machine tools moving ahead and new orders for durables moving down while productivity remained the same. PRICES The forecast data remains the same but the change in the data base alters the percentages. The Consumer Price Index for All Urban Consumers will now be used so inflation this year is projected at 4.3 percent and for next year, 4.7 percent. EMPLOYMENT AND LABOR The jobless rate will hover around 7.4 percent through next year. Look to about 2 million new jobs next year with three-fourths of those being in service-producing industries. HOUSING Expect single-family starts to rise 2.5 percent this year over last year and anticipate a decline of around 10 percent in 1985. Improvement will not begin before 1987. AUTOMOBILES There is a slight change in the forecast upwards for the first part of 1985, but the trend remains the same with this year being the peak for car sales. BUDGETS The forecast is the same with federal deficits seen as edging down toward $150 billion by 1987 and state and local surpluses projected as continuing to expand. A Constitutional amendment calling for a balanced budget would play havoc with the cyclical nature of the economy. INCOME The nice gain in personal income in September should relieve fears of recession. Average weekly earnings are forecast as going up more rapidly (6.0 percent) in 1986 than in 1985 (3.5 percent). MONEY AND CREDIT It is believed here that there will be some relaxation of a mild nature. The gains in M1, for instance, that have taken place and that are forecast here for the next two years are in line with overall expansion. INTEREST RATES, YIELDS, AND SECURITIES PRICES As has been forecast for two years, expect generally high levels of rates with no general softening until late 1986 at the earliest. Any relaxing now will be of short duration. Look to the prime rate to edge ahead next year and then level near 12 percent toward the end of 1985 and near 11 percent in the latter part of 1986. For 1985 no significant ups or downs at the stock market and the bond market are anticipated.

## 0.02 OVERVIEW

In the last issue, reasons were given for the view that there would not be any recession in 1985 or 1986. These included the following points: federal deficits do create added demand, continued business profits lead to more purchasing power, and consumer buying will remain solid as employment levels hold.

In this current section, factors contributing to the KEDI expectation of slow growth are presented:

1. Consumer demand will not be rising as strongly as in 1984 because:
    a. Consumers have already made up for most of what they "lost" during 1981 and 1982 leaving any pent-up demand largely satisfied.
    b. Increments in increased employment will not be as large as they were in 1983 and 1984.
2. The business investment cycle is winding down. Large construction projects and highway repairs will end this year or next while the modernization of equipment also slows. This leaves the business investment stimulus less strong than in 1984.
3. The economy will not be as stimulated as it was in 1983 and 1984 by the federal budgets deficits. Federal deficits are seen as moving down and state and local surpluses moving up which means the total deficit of both levels can be counted on to decline. That adds less extra demand than in previous years.
4. Historically the average length of expansion periods of the U.S. economy has been four years. We have had two years of recovery so far. So, there should be two more--to be average, judging by historical standards. Actually, KEDI anticipates the present cycle will last longer than the four-year average. (Economic and business history repeats itself, but always with a difference.)

    It is expected that the present slowdown will last approximately one or one and a half year--a pause in the growth of the economy. The economy will start expanding more vigorously in late 1986. Forecast data for 1987 and 1988 show a strong expansion that coincides with starts of new housing and automobile cycles.

## KEDI FORECAST HIGHLIGHTS

TABLE 0.00

| Indicator | Unit | 1984 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Gross national | bil.72$ | 1640.4 | 1734.2 | 1798.4 | 1886.5 |
| product | % change | 6.9 | 2.5 | 3.7 | 4.9 |
| Index of industrial | 1967=100 | 163.6 | 172.4 | 183.1 | 199.2 |
| production | % change | 10.8 | 2.4 | 6.2 | 8.8 |
| Capacity | % | 81.8 | 81.1 | 81.9 | 82.3 |
| utilization | % change | 12.3 | -.6 | 1.0 | .5 |
| Unemployment | % | 7.56 | 7.40 | 7.10 | 6.87 |
| rate | % change | -21.1 | -.4 | -4.1 | -3.3 |
| Private housing | mil. units | 1.791 | 1.613 | 1.952 | 2.173 |
| starts | % change | 5.1 | -2.2 | 12.1 | 11.3 |
| Car | mil. units | 10.5 | 9.7 | 10.3 | 11.3 |
| sales | % change | 14.1 | -3.0 | 5.9 | 9.8 |
| Implicit GNP | 1972=100 | 223.4 | 244.4 | 257.8 | 272.5 |
| price deflator | % change | 3.8 | 5.0 | 5.5 | 5.7 |
| Consumer price | 1967=100 | 311.3 | 344.0 | 363.6 | 385.1 |
| index | % change | 4.3 | 5.6 | 5.7 | 5.9 |
| Producer price index | 1967=100 | 291.5 | 319.5 | 341.5 | 364.0 |
| (finished goods) | % change | 2.2 | 6.5 | 6.9 | 7.0 |
| Federal | bil.$ | -162.9 | -149.3 | -151.1 | -144.7 |
| deficit | % change | -8.8 | -5.8 | -1.0 | -3.4 |
| Personal | bil.$ | 3013.8 | 3544.8 | 3899.3 | 4328.2 |
| income | % change | 9.8 | 8.2 | 10.0 | 11.0 |
| Prime | % | 12.10 | 11.34 | 10.42 | 9.27 |
| rate | % change | 13.1 | -2.2 | -8.1 | -8.8 |
| Mortgage | % | 13.97 | 13.35 | 12.34 | 11.18 |
| rate | % change | 4.0 | -2.2 | -7.6 | -9.4 |
| Currency plus | bil.$ | 543.0 | 598.5 | 636.8 | 680.1 |
| demand deposits | % change | 6.7 | 5.1 | 6.4 | 6.8 |
| Commercial and | bil.$ | 470.6 | 510.9 | 528.8 | 558.9 |
| industrial loans | % change | 13.9 | 3.5 | 3.5 | 5.7 |

Numbers in "% change" rows show percent changes over the previous year

## 0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, Assumptions No.1 and No.3 have been updated.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will be slightly lower; in 1986 it will go up to $30 per barrel; in 1987, to $32 per barrel; and in 1988, $33 per barrel.
2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.
3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1986 period. Relaxation will start in 1986. It will continue in 1987.
4. In 1985, assume U.S. record crops, and in the U.S.S.R. and China, average crops will take place. In 1986 good crops in all main producing countries are anticipated.
6. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.
6. No drastic changes in international relationships are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the November 1984 KEDI forecast. In 1985 and 1986 a general slowdown is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years. Compared to the October forecast, no significant changes took place. Forecast data for 1984-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining. The export-import gap will start closing to a more sustainable level in 1987 and the following years.

TABLE 1.1 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

| Indicator | Unit | 1983* | | | 1984 | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 * | 2 * | 3 | 4 | | (1) |
| Gross national product | bil. 72$ | 1534.7 | 1610.9 | 1638.8 | 1649.6 | 1662.1 | 1640.4 | 6.9 |
| Index of industrial production | 1967=100 | 147.7 | 159.8 | 163.1 | 165.7 | 165.9 | 163.6 | 10.8 |
| Unemployment rate | % | 9.6 | 7.9 | 7.5 | 7.4 | 7.4 | 7.6 | -21.1 |
| Capacity utilization rate | % | 72.5 | 80.6 | 81.6 | 82.6 | 82.3 | 81.8 | 12.3 |
| Private housing starts | mil. | 1.703 | 1.968 | 1.906 | 1.659 | 1.630 | 1.791 | 5.1 |
| Car sales | mil. | 9.2 | 10.6 | 10.6 | 10.5 | 10.3 | 10.5 | 14.1 |

| Indicator | Unit | 1984 | | | 1985 | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Gross national product | bil. 72$ | 1640.4 | 1677.0 | 1685.9 | 1695.3 | 1709.2 | 1691.9 | 3.1 |
| Index of industrial production | 1967=100 | 163.6 | 166.8 | 168.4 | 168.8 | 169.6 | 168.4 | 2.9 |
| Unemployment rate | % | 7.6 | 7.5 | 7.4 | 7.4 | 7.5 | 7.4 | -1.3 |
| Capacity utilization rate | % | 81.8 | 82.1 | 81.9 | 81.4 | 81.1 | 81.6 | -.2 |
| Private housing starts | mil. | 1.791 | 1.617 | 1.703 | 1.757 | 1.522 | 1.650 | -7.9 |
| Car sales | mil. | 10.5 | 10.3 | 10.2 | 9.9 | 9.7 | 10.0 | -4.8 |

| Indicator | Unit | 1985 | | | 1986 | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Gross national product | bil. 72$ | 1691.9 | 1716.9 | 1725.8 | 1739.4 | 1754.5 | 1734.2 | 2.5 |
| Index of industrial production | 1967=100 | 168.4 | 169.0 | 169.8 | 172.6 | 178.3 | 172.4 | 2.4 |
| Unemployment rate | % | 7.4 | 7.7 | 7.5 | 7.3 | 7.1 | 7.4 | -.4 |
| Capacity utilization rate | % | 81.6 | 81.1 | 80.8 | 81.1 | 81.4 | 81.1 | -.6 |
| Private housing starts | mil. | 1.650 | 1.488 | 1.554 | 1.728 | 1.673 | 1.613 | -2.2 |
| Car sales | mil. | 10.0 | 9.5 | 9.7 | 9.6 | 9.8 | 9.7 | -3.0 |

*Historical data (1) % change over previous year

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

There are continued signs of softening of the economy following the exhausting pace of the first part of this year. As pluses still exceed the minuses in terms of impact on the economy, there is no threat of recession. In September, various indicators of economic activity leveled or declined, and that is expected to continue in October to somewhat offset areas of expension and keep the quarterly figures at low-growth levels.

GNP expansion for the third quarter was at 2.7 percent--less than half of the second quarter pace. KEDI views the 2.7 percent as a needed adjustment. Actually, the true rate of growth was somewhat higher for the domestic economy if the net export negative total is not included here. Expect GNP to expand 7.0 percent this year and 3.0 percent in 1985.

The mixed economic news includes the following:

1. Construction spending edged ahead by 1.1 percent in September from the prior month.
2. Machine tool orders continued to gain in September putting the total improvement for the first three quarters at 83 percent above the like 1983 period.
3. The change in leading indicators was revised by the Commerce Department from a gain of 0.5 percent in August to a decline of 0.1 percent. The September data showed a gain of 0.4 percent.
4. Housing had some improvement, and car sales remained "okay."
5. Indications point to lackluster, slightly improved retail sales in October.
6. Steel production edged down in September. Early October data point to a slight improvement.
7. New orders for durables went down 4.4 billion to $97.6 billion.
8. Productivity at factories, mines, and utilities fell 0.6 percent in September due, in part, to the auto strike. That negative move is not viewed as the start of a trend. On the average, productivity remained the same in the third quarter as in prior quarter.

TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted
at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | (1) |
| Gross national product | bil. 72$ | 1534.7 | 1610.9 | 1638.8 | 1649.6 | 1662.1 | 1640.4 | 6.9 |
| Personal cons. expenditures | bil. 72$ | 1009.2 | 1044.1 | 1064.3 | 1064.6 | 1083.1 | 1064.0 | 5.4 |
| Gross private dom.investment | bil. 72$ | 221.0 | 285.6 | 283.9 | 299.2 | 290.6 | 289.8 | 31.1 |
| Net exports | bil. 72$ | 12.6 | -8.3 | -11.5 | -22.7 | -23.4 | -16.5 | -- |
| Federal govt. purchases | bil. 72$ | 116.2 | 112.2 | 123.2 | 127.4 | 129.3 | 123.0 | 5.9 |
| State and local purchases | bil. 72$ | 175.7 | 177.3 | 178.9 | 181.1 | 182.5 | 180.0 | 2.4 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Gross national product | bil. 72$ | 1640.4 | 1677.0 | 1685.9 | 1695.3 | 1709.2 | 1691.9 | 3.1 |
| Personal cons. expenditures | bil. 72$ | 1064.0 | 1094.2 | 1099.0 | 1109.3 | 1117.7 | 1105.1 | 3.9 |
| Gross private dom.investment | bil. 72$ | 289.8 | 295.6 | 299.8 | 296.9 | 300.8 | 297.8 | 2.8 |
| Net exports | bil. 72$ | -16.5 | -26.7 | -28.4 | -26.6 | -29.4 | -27.8 | -- |
| Federal govt. purchases | bil. 72$ | 123.0 | 130.5 | 131.3 | 132.1 | 133.7 | 131.9 | 7.2 |
| State and local purchases | bil. 72$ | 180.0 | 183.4 | 184.2 | 185.6 | 186.9 | 184.9 | 2.7 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Gross national product | bil. 72$ | 1691.9 | 1716.9 | 1725.8 | 1739.4 | 1754.5 | 1734.2 | 2.5 |
| Personal cons. expenditures | bil. 72$ | 1105.1 | 1120.9 | 1125.0 | 1128.7 | 1133.4 | 1127.0 | 2.0 |
| Gross private dom.investment | bil. 72$ | 297.8 | 302.4 | 301.2 | 306.4 | 310.6 | 305.2 | 2.5 |
| Net exports | bil. 72$ | -27.8 | -30.5 | -28.1 | -26.2 | -23.1 | -27.0 | -- |
| Federal govt. purchases | bil. 72$ | 131.9 | 137.0 | 139.5 | 141.2 | 143.7 | 140.4 | 6.4 |
| State and local purchases | bil. 72$ | 184.9 | 187.1 | 188.2 | 189.3 | 189.9 | 188.6 | 2.0 |

*Historical data (1) % change over previous year

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

(Table 1.21 on page 9)

The forecast data for prices remains essentially the same, but the data base for the Consumer Price Index has been switched which accounts for the difference in figures. ATTENTION. At the request of some customers, starting in this issue, KEDI will report the actual and forecast data for the CPI as those calculated for the ALL URBAN CONSUMERS (CPI-U). Previously reported data pertained to the REVISED CONSUMER PRICE INDEX FOR WAGE EARNERS AND CLERICAL WORKERS (CPI-W). The difference between the CPI-U and the CPI-W can be seen from the following table set up in the same way as Table 1.21 on page 9. Data in the upper lines are those KEDI used to report the CPI in prior issues(CPI-W). Data in the lower lines (CPI-U) are the ones that appear in Table 1.21 starting in this issue and replacing the old series.

CONSUMER PRICE INDEXES

| | Unit | 1983 | 1984 | | | | 1984 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index (CPI-W) | 1967=100 | 297.4 | 303.1 | 305.2 | 307.3 | 309.8 | 306.3 |
| Consumer Price Index (CPI-U) | 1967=100 | 298.4 | 306.4 | 309.7 | 313.1 | 315.8 | 311.3 |

| | Unit | 1984 | 1985 | | | | 1985 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index (CPI-W) | 1967=100 | 306.3 | 313.3 | 317.7 | 323.2 | 327.1 | 320.3 |
| Consumer Price Index (CPI-U) | 1967=100 | 311.3 | 318.9 | 322.8 | 328.9 | 333.8 | 326.1 |

| | Unit | 1985 | 1986 | | | | 1986 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index (CPI-W) | 1967=100 | 320.3 | 331.9 | 335.0 | 339.4 | 343.8 | 337.5 |
| Consumer Price Index (CPI-U) | 1967=100 | 326.1 | 338.0 | 342.1 | 345.7 | 350.2 | 344.0 |

In September, consumer prices moved ahead by 0.4 percent which adds confirmation to the forecast here of moderate price increases this year first forecast here a year ago. The September figure included a 0.1 percent decline in food and beverage prices, a 0.6 percent rise in apparel prices, 0.5 for transportation costs, and a 0.4 percent increase in housing costs.

KEDI shares the view of Joel Popkin that prices will be going up a bit faster next year due to the stabilizing of the value of the dollar. Mr. Lawrence Kudlow cites the rapid growth of the money supply of last year

## TABLE 1.21 PRICES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | (1) |
| Consumer price index, n.s.a.** | 1967= 100 | 298.4 | 306.4 | 309.7 | 313.1 | 315.8 | 311.3 | 4.3 |
| Producer price index, n.s.a.** | 1967= 100 | 285.2 | 290.6 | 291.4 | 291.4 | 292.6 | 291.5 | 2.2 |
| Price deflators: | | | | | | | | |
| GNP | 1972= 100 | 215.2 | 220.6 | 222.4 | 224.4 | 226.0 | 223.4 | 3.8 |
| Personal cons. expenditures | 1972= 100 | 213.6 | 218.0 | 219.2 | 221.6 | 222.6 | 220.4 | 3.2 |
| Gross private dom.investment | 1972= 100 | 215.4 | 218.5 | 220.8 | 220.8 | 223.0 | 220.8 | 2.5 |
| Federal purchases | 1972= 100 | 234.9 | 243.3 | 246.7 | 241.5 | 243.1 | 243.7 | 3.7 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Consumer price index, n.s.a.** | 1967= 100 | 311.3 | 318.9 | 322.4 | 328.9 | 333.4 | 326.1 | 4.7 |
| Producer price index, n.s.a.** | 1967= 100 | 291.5 | 294.7 | 297.5 | 301.3 | 306.5 | 300.0 | 2.9 |
| Price deflators: | | | | | | | | |
| GNP | 1972= 100 | 223.4 | 227.7 | 231.6 | 234.8 | 235.9 | 232.8 | 4.2 |
| Personal cons. expenditures | 1972= 100 | 220.4 | 225.7 | 229.1 | 232.5 | 235.6 | 230.7 | 4.7 |
| Gross private dom.investment | 1972= 100 | 220.8 | 224.0 | 224.9 | 226.7 | 227.2 | 225.7 | 2.2 |
| Federal purchases | 1972= 100 | 243.7 | 246.2 | 246.1 | 247.8 | 248.3 | 246.6 | 1.9 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Consumer price index, n.s.a.** | 1967= 100 | 326.1 | 338.0 | 342.1 | 345.7 | 350.2 | 344.0 | 5.6 |
| Producer price index, n.s.a.** | 1967= 100 | 300.0 | 311.8 | 316.2 | 321.7 | 328.2 | 319.5 | 6.5 |
| Price deflators: | | | | | | | | |
| GNP | 1972= 100 | 232.8 | 239.6 | 242.4 | 246.5 | 249.1 | 244.4 | 5.0 |
| Personal cons. expenditures | 1972= 100 | 230.7 | 240.2 | 243.8 | 249.2 | 252.6 | 246.5 | 6.8 |
| Gross private dom.investment | 1972= 100 | 225.7 | 228.0 | 229.4 | 230.6 | 232.1 | 230.0 | 1.9 |
| Federal purchases | 1972= 100 | 246.6 | 249.6 | 250.7 | 251.4 | 253.3 | 251.3 | 1.9 |

*Historical data (1) % change over previous year **CPI: All Urban Consumers; PPI: Finished Goods

PRICES

as leading us to inflation of 6-7 percent in 1985. KEDI does not share that view. Look to inflation of 4.7 percent in 1985 and 5.6 percent in 1986.

There are no essential changes in the Producer Price Index forecast (PPI). Prices of crude goods other than food and energy gained 1.2 percent in September, and that points to producer prices starting more of an upward trend.

## 1.22 NOMINAL GNP

(Table 1.22 on page 11)

The KEDI forecast of nominal GNP and components remains essentially unchanged when compared to the forecast published in the prior issue of this Survey. Data for Personal Consumption Expenditures and Federal and State and Local Expenditures has been insignificantly changed for the 1984 - 1986 forecast period: Data point to a healthy growth in personal consumption purchases and to a moderate and slowing growth in federal and state and local purchases.

For 1985 and 1986, projections for Gross Private Domestic Investment have been increased abd those for Net Exports have been reduced. Now it is expected that gross private domestic investment will grow faster than previously reported mainly due to the upward revised forecast of residential construction and more inventory increases in that period.

The outlook for foreign trade is a bit more pessimistic: the downward revision of Net Exports has been caused mainly by the upward adjustment of forecast data for imports of raw materials and machinery.

### TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | (1) |
| Gross national product | bil.$ | 3304.8 | 3553.3 | 3644.7 | 3701.2 | 3756.3 | 3663.9 | 10.9 |
| Personal cons. expenditures | bil.$ | 2155.9 | 2276.5 | 2332.9 | 2359.3 | 2410.7 | 2344.9 | 8.8 |
| Gross private dom.investment | bil.$ | 471.6 | 623.8 | 626.8 | 660.5 | 660.2 | 642.8 | 36.3 |
| Net exports | bil.$ | -8.3 | -51.5 | -58.8 | -85.5 | -94.7 | -72.6 | -- |
| Federal purchases | bil.$ | 269.7 | 267.6 | 296.4 | 307.7 | 314.3 | 296.5 | 9.9 |
| State and local purchases | bil.$ | 415.8 | 436.8 | 447.4 | 459.2 | 465.8 | 452.3 | 8.8 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Gross national product | bil.$ | 3663.9 | 3818.5 | 3904.5 | 3980.6 | 4032.0 | 3933.9 | 7.4 |
| Personal cons. expenditures | bil.$ | 2344.9 | 2469.2 | 2518.1 | 2600.9 | 2633.6 | 2555.5 | 9.0 |
| Gross private dom.investment | bil.$ | 642.8 | 662.1 | 694.3 | 668.5 | 683.4 | 677.1 | 5.3 |
| Net exports | bil.$ | -72.6 | -98.6 | -102.6 | -84.3 | -100.8 | -99.1 | -- |
| Federal purchases | bil.$ | 296.5 | 318.7 | 323.1 | 327.3 | 332.0 | 325.3 | 9.7 |
| State and local purchases | bil.$ | 452.3 | 467.2 | 471.6 | 478.2 | 483.8 | 475.2 | 5.1 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Gross national product | bil.$ | 3933.9 | 4113.7 | 4183.4 | 4287.6 | 4370.5 | 4238.8 | 7.8 |
| Personal cons. expenditures | bil.$ | 2555.5 | 2692.6 | 2743.3 | 2812.4 | 2863.5 | 2778.0 | 8.7 |
| Gross private dom.investment | bil.$ | 677.1 | 689.5 | 691.0 | 706.6 | 720.9 | 702.0 | 3.7 |
| Net exports | bil.$ | -99.1 | -96.4 | -89.6 | -80.2 | -75.4 | -85.4 | -- |
| Federal purchases | bil.$ | 325.3 | 342.0 | 350.0 | 355.0 | 364.1 | 352.8 | 8.5 |
| State and local purchases | bil.$ | 475.2 | 486.0 | 488.7 | 493.8 | 497.5 | 491.5 | 3.4 |

*Historical data (1) % change over previous year

## 1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast is basically the same for the rate of joblessness. Look to it to remain close to 7.4 percent through next year. The expected growth of the civilian labor force has been slightly altered for 1985 and 1986 with the size being forecast at 123 million in the last quarter of 1986, for example, instead of 124 million cited in the prior issue.

During the next two years, the main increases in employment are expected in service-producing industries. In 1985, expect 1.5 million new jobs in the service-producing industries and approximately 0.5 million added jobs in goods-producing industries. During 1986, expect about 1 million new jobs. Almost all of these will be in the service sector. The breakdown by industry shows the following:

1. Industries that will absorb most of the new jobs are fast food, hotels, restaurants, retail trade, repairs, construction, electronics, machine tools, plastics, and the defense industry.
2. Industries that will still have problems with total jobs declining will be iron ore and copper mining, steel and ferrous metals, aluminum, stone and glass products, furniture and fixtures, lumber, and nonelectrical machinery.
3. Employment is forecast as remaining essentially flat in the rubber, chemicals, electrical machinery, wholesale trade, railroads, trucking, printing and publishing, paper and products, banking and real estate, petroleum and products industries.

Unemployment has remained quite steady with the July and August percent being 7.5 and the September and October figure being to 7.4 percent.

Expect the fourth quarter average to be near 7.41 percent as revised from 7.26 in the prior issue.

## TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | |
| Population | mil. | 223.9 | 235.8 | 236.7 | 237.8 | 238.9 | 237.3 | 1.3 |
| Civilian labor force | mil. | 111.6 | 112.6 | 113.6 | 114.7 | 115.3 | 114.1 | 2.2 |
| Employment | mil. | 100.8 | 103.7 | 105.1 | 106.3 | 106.8 | 105.5 | 4.6 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | -- |
| Nonagriculture | mil. | 97.5 | 100.4 | 101.7 | 102.9 | 103.4 | 102.1 | 4.7 |
| Unemployment rate | % | 9.58 | 7.87 | 7.48 | 7.46 | 7.41 | 7.56 | -21.1 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Population | mil. | 237.3 | 239.8 | 240.9 | 242.3 | 243.7 | 241.6 | 1.8 |
| Civilian labor force | mil. | 114.1 | 116.4 | 117.1 | 118.0 | 118.9 | 117.6 | 3.1 |
| Employment | mil. | 105.5 | 107.7 | 108.5 | 109.3 | 110.0 | 108.9 | 3.2 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | -- |
| Nonagriculture | mil. | 102.1 | 104.3 | 105.1 | 105.9 | 106.6 | 105.5 | 3.3 |
| Unemployment rate | % | 7.56 | 7.45 | 7.38 | 7.41 | 7.48 | 7.43 | -1.3 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Population | mil. | 241.6 | 243.5 | 244.1 | 245.0 | 245.8 | 244.6 | 1.2 |
| Civilian labor force | mil. | 117.6 | 119.5 | 120.7 | 121.9 | 123.0 | 121.3 | 3.1 |
| Employment | mil. | 108.9 | 110.3 | 111.7 | 113.0 | 114.2 | 112.3 | 3.1 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | -- |
| Nonagriculture | mil. | 105.5 | 106.9 | 108.3 | 109.6 | 110.8 | 108.9 | 3.2 |
| Unemployment rate | % | 7.43 | 7.67 | 7.46 | 7.31 | 7.14 | 7.40 | -.4 |

*Historical data (1) % change over previous year

## 1.40 HOUSING AND AUTOMOBILES

### 1.41 HOUSING

(Table 1.41 on page 15)

The projection for housing starts and housing permits has been increased marginally when compared to data in the prior issue. As can be seen on Table 1.41, housing gains this year will be in the range of 2.5 percent (single-family starts) to 9.6 (multifamily starts) over the prior year. Both will decline fairly sharply next year with the single-family sector bearing the brunt of the decline. The drop is forecast at over 9 percent. During the following year declines will be quite slight with recovery expected by KEDI no earlier than late 1986.
The reasons for the forecast were discussed in earlier issues. Basically, the demand has been largely satisfied, rates for mortgages are relatively high as are the prices of new homes.

Housing starts jumped ahead by 8.9 percent in September, seasonally adjusted. The gain was attributed to a fractional decline in mortgage rates. As Jesse Abraham of Data Resources stated, the strong showing for September would not alter the housing scheme "all that much." (The Wall Street Journal Oct. 18, 1984.) The view of Michael Carliner of Chase Econometrics that housing starts will stay in the 1.5-1.6 million range in the foreseeable future is shared here.

Building permits issued were off 5.4 percent in September as they were issued at an adjusted annual rate of 1.4 million. Last September, the rate was at 1.54 million.

Sales Sales of new single-family homes had declined 8.8 percent in August and rebounded in September by jumping ahead 21.9 percent. That jump is seen as temporary partly due to anticipatory buying--responding to a fractional drop in mortgage rates and expecting rates to move up again. Housing resales were off 1.1 percent for the fifth month of decline. The median price of a new home was at $80,000 in September with the average price being $100,000 while the median price of a resale home was $72,600.

On average, KEDI expects prices of new homes to go up by 5.2 percent in 1985 compared to this year's average, and by 4.8 percent in 1986 compared to 1985.

## TABLE 1.41 HOUSING

(Unless otherwise stated, quarterly data are
seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | (1) |
| Single-family housing starts | mil. | 1.068 | 1.278 | 1.138 | .983 | .979 | 1.095 | 2.5 |
| Multifamily housing starts | mil. | .635 | .690 | .768 | .676 | .651 | .696 | 9.6 |
| Mobile home shipments | mil. | .296 | .298 | .294 | .311 | .306 | .302 | 2.0 |
| Permits authorized | mil. | 1.594 | 1.809 | 1.743 | 1.497 | 1.416 | 1.616 | 1.4 |
| 1-family unit price, new** | tho.$ | 89.8 | 94.7 | 96.5 | 99.0 | 99.7 | 97.5 | 8.6 |
| 1-family unit price,existing** | tho.$ | 82.5 | 86.5 | 88.7 | 91.8 | 92.5 | 89.9 | 9.0 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Single-family housing starts | mil. | 1.095 | .985 | 1.014 | 1.056 | .908 | .991 | -9.5 |
| Multifamily housing starts | mil. | .696 | .632 | .689 | .701 | .614 | .659 | -5.3 |
| Mobile home shipments | mil. | .302 | .279 | .285 | .284 | .248 | .279 | -7.6 |
| Permits authorized | mil. | 1.616 | 1.486 | 1.548 | 1.536 | 1.405 | 1.494 | -7.5 |
| 1-family unit price, new** | mil. | 97.5 | 101.2 | 102.4 | 103.6 | 103.2 | 102.6 | 5.2 |
| 1-family unit price,existing** | mil. | 89.9 | 93.4 | 94.0 | 96.0 | 96.1 | 94.9 | 5.6 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Single-family housing starts | mil. | .991 | .902 | .951 | 1.069 | .995 | .979 | -1.1 |
| Multifamily housing starts | mil. | .659 | .586 | .603 | .659 | .678 | .634 | -3.8 |
| Mobile home shipments | mil. | .279 | .236 | .239 | .264 | .285 | .256 | -8.2 |
| Permits authorized | mil. | 1.494 | 1.384 | 1.451 | 1.592 | 1.627 | 1.514 | 1.3 |
| 1-family unit price, new** | mil. | 102.6 | 103.3 | 104.2 | 108.9 | 113.4 | 107.5 | 4.8 |
| 1-family unit price,existing** | mil. | 94.9 | 96.7 | 97.8 | 99.0 | 101.6 | 98.8 | 4.1 |

*Historical data (1) % change over previous year **Seasonally not adjusted

## 1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast remains the same for the rest of this year and is adjusted fractionally upwards for the first half of 1985. That slight gain is due mainly to the following factors:

1. There is a downward revision of the forecast of interest rates for the first half of 1985 which means a resulting increase in ability to buy a new car.
2. The Canadian strike had not been anticipated, and that reduced GM sales. KEDI expects the results of the Canadian strike will spread a bit during the rest of this year. Thus, those planning to buy a new car will wait a bit longer. KEDI shares the view of Fabian Linden of the Conference Board that some set their minds on one model, and if they cannot get it, they will wait.

This revision has not, however, affected the trend. KEDI maintains the position that car sales in 1985 will be weaker than in the current year, and in 1986 there will be a further slowing.

U.S. auto sales were still going at a good clip in early October with the daily selling rate being up 4.1 percent from the first 10 days of October in the previous year.

In mid-October domestic auto sales were off by 6.5 percent--mostly due to the strike against GM as their sales were 16 percent lower. Ford sales were up by 10 percent, and Chrysler gained by 8.1 percent in mid-October.

For the year to date, through October 20, sales were 20.7 percent ahead of the comparable period of 1983. Sales came to just over 6.54 million so far this year.

The forecast of light-duty truck sales remains unchanged when compared to the prior issue.

## TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984<br>1* | 2* | 3 | 4 | 1984 | %<br>(1) |
|---|---|---|---|---|---|---|---|---|
| **Passenger cars:** | | | | | | | | |
| Total sales | mil. | 9.2 | 10.6 | 10.6 | 10.5 | 10.3 | 10.5 | 14.1 |
| Domestic | mil. | 6.8 | 8.3 | 8.2 | 8.0 | 7.8 | 8.1 | 19.1 |
| Imported | mil. | 2.4 | 2.3 | 2.4 | 2.4 | 2.4 | 2.4 | 1.0 |
| Dealers inventories,n.s.a. | mil. | 1.4 | 1.6 | 1.3 | 1.2 | 1.4 | 1.4 | .0 |
| Factory shipments | mil. | 6.7 | 8.3 | 8.0 | 7.9 | 7.8 | 8.0 | 19.7 |
| **Light-duty trucks:** | | | | | | | | |
| Total sales | mil. | 2.5 | 3.0 | 3.2 | 3.1 | 2.9 | 3.0 | 20.0 |

| Indicator | Unit | 1984 | 1985<br>1 | 2 | 3 | 4 | 1985 | %<br>(1) |
|---|---|---|---|---|---|---|---|---|
| **Passenger cars:** | | | | | | | | |
| Total sales | mil. | 10.5 | 10.3 | 10.2 | 9.9 | 9.7 | 10.0 | -4.8 |
| Domestic | mil. | 8.1 | 7.9 | 7.8 | 7.4 | 7.3 | 7.6 | -6.2 |
| Imported | mil. | 2.4 | 2.5 | 2.5 | 2.4 | 2.4 | 2.5 | .5 |
| Dealers inventories,n.s.a. | mil. | 1.4 | 1.6 | 1.7 | 1.6 | 1.5 | 1.5 | .0 |
| Factory shipments | mil. | 8.0 | 7.6 | 7.7 | 7.5 | 7.5 | 7.6 | -8.3 |
| **Light-duty trucks:** | | | | | | | | |
| Total sales | mil. | 3.0 | 2.5 | 2.8 | 3.0 | 2.8 | 2.8 | -6.7 |

| Indicator | Unit | 1985 | 1986<br>1 | 2 | 3 | 4 | 1986 | %<br>(1) |
|---|---|---|---|---|---|---|---|---|
| **Passenger cars:** | | | | | | | | |
| Total sales | mil. | 10.0 | 9.5 | 9.7 | 9.6 | 9.8 | 9.7 | -3.0 |
| Domestic | mil. | 7.6 | 7.1 | 7.4 | 7.2 | 7.3 | 7.3 | -2.8 |
| Imported | mil. | 2.5 | 2.4 | 2.3 | 2.4 | 2.5 | 2.4 | -.4 |
| Dealers inventories,n.s.a. | mil. | 1.5 | 1.9 | 1.8 | 1.7 | 1.5 | 1.5 | .1 |
| Factory shipments | mil. | 7.6 | 7.3 | 7.3 | 7.0 | 7.0 | 7.2 | -3.1 |
| **Light-duty trucks:** | | | | | | | | |
| Total sales | mil. | 2.8 | 2.7 | 2.8 | 2.7 | 2.6 | 2.7 | -3.6 |

*Historical data (1) % change over previous year

## 1.50 BUDGETS

(Table 1.50 on page 19)

KEDI has maintained for years that:

1. Interest rates are not directly related to federal budget deficits,
2. Cutting the deficit is done most effectively on the expenditure side and not by raising taxes.

Now some other voices begin to support the assertions held here. First, Citicorp chairman Walter Wriston publically doubted the conventional wisdom that ties high deficits to high interest rates. The interest rate is much lower today than it was when the deficit was around half of what it is now. As he said, "I keep hearing people say that high deficits cause a high rate of interest, but I can't find it in the facts and that's very confusing." (Akron Beacon Journal, October 14, page A14.)

KEDI has long held the view that Exxon Chairman Clifton Garvin, Jr. expressed about feeling that if taxes were raised, the added income would be spent rather than being applied to deficit reduction.

Balanced Budget? Of 34 states required to have a constitutional convention to consider an amendment to require budget balancing, 32 have filed requests. Such a convention would be opening a Pandora's Box of related topics of taxes and spending. The position at KEDI is that an amendment would do more harm than good. The central economic (not political) argument against it is an economy pursues cyclical developments--budget deficits and surpluses have either to follow or to act against the cycles. A budget made to steadily balance at all phases of the cycle may falsely alter the pace of the economy. Cycles are natural--a rigid budget would not be natural or fit into business cycles.

Secondly, a balanced, rigid federal budget would not fit in with the state and local budgets. These have surpluses and they are permanently growing. If the federal budget was balanced and the state and local budgets had surpluses, the budget for the entire Government would show an enormous surplus. Such a situation may have catastrophic consequences: It could drive the economy into a decline or possibly into a long-lasting depression.

### TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | |
| **Federal government:** | | | | | | | | |
| Income taxes | bil.$ | 295.2 | 301.6 | 310.7 | 321.9 | 328.4 | 315.7 | 6.9 |
| Corpor.profits tax accruals | bil.$ | 59.8 | 73.0 | 75.6 | 77.9 | 80.0 | 76.6 | 28.1 |
| Surplus/deficit | bil.$ | -178.6 | -161.3 | -163.7 | -164.5 | -162.1 | -162.9 | -8.8 |
| **State and local governments:** | | | | | | | | |
| Income taxes | bil.$ | 109.0 | 116.7 | 119.6 | 121.0 | 125.3 | 120.7 | 10.7 |
| Corpor.profits tax accruals | bil.$ | 16.0 | 19.7 | 20.2 | 21.4 | 21.8 | 20.8 | 30.0 |
| Surplus/deficit | bil.$ | 44.1 | 53.9 | 54.5 | 55.8 | 59.1 | 55.8 | 26.5 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| **Federal government:** | | | | | | | | |
| Income taxes | bil.$ | 315.7 | 335.4 | 341.8 | 346.8 | 353.9 | 344.5 | 9.1 |
| Corpor.profits tax accruals | bil.$ | 76.6 | 81.2 | 84.6 | 85.1 | 87.0 | 84.5 | 10.3 |
| Surplus/deficit | bil.$ | -162.9 | -164.2 | -160.1 | -159.0 | -150.6 | -158.5 | -2.7 |
| **State and local governments:** | | | | | | | | |
| Income taxes | bil.$ | 120.7 | 128.2 | 131.6 | 136.7 | 138.5 | 133.8 | 10.9 |
| Corpor.profits tax accruals | bil.$ | 20.8 | 22.7 | 24.6 | 25.3 | 26.8 | 24.9 | 19.7 |
| Surplus/deficit | bil.$ | 55.8 | 61.3 | 64.7 | 69.0 | 71.8 | 66.7 | 19.5 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| **Federal government:** | | | | | | | | |
| Income taxes | bil.$ | 344.5 | 364.8 | 370.9 | 380.4 | 385.6 | 275.4 | 9.0 |
| Corpor.profits tax accruals | bil.$ | 84.5 | 88.2 | 89.1 | 93.4 | 97.9 | 92.2 | 9.1 |
| Surplus/deficit | bil.$ | -158.5 | -152.3 | -154.1 | -146.7 | -144.2 | -149.3 | -5.8 |
| **State and local governments:** | | | | | | | | |
| Income taxes | bil.$ | 133.8 | 140.2 | 141.7 | 144.2 | 147.3 | 143.4 | 7.2 |
| Corpor.profits tax accruals | bil.$ | 24.9 | 27.2 | 28.5 | 30.8 | 32.0 | 29.6 | 18.9 |
| Surplus/deficit | bil.$ | 66.7 | 72.6 | 73.5 | 76.7 | 77.9 | 75.2 | 12.7 |

*Historical data (1) % change over previous year

BUDGETS

There is no change here in the forecast for state and local budgets. As is shown in Table 1.50 the surplus will gain by 8.3 percent during this year. Look to it to expand by close to 19 percent in 1985 and over 13 percent in 1986.

## 1.60 INCOME

(Table 1.60 on page 21)

Personal income rose a healthy 0.9 percent in September and consumer spending was up by 1.4 percent. KEDI heartily agrees with the view that such gains blank out recession fears.

As can be seen from Table 1.60, 1985 will have a gain in personal income at close to the level of 1984: approximately 9 percent. Even 1986 shows a gain of 8 percent over 1985, and personal disposable income is forecast as rising the same that year. Still, the picture for 1986 is somewhat clouded with a significant slowdown in the first part and no significant pick up before the end of that year. Forecast data show positive trends for average weekly earnings as they will be going up close to 4 percent next year and near 6 percent in 1986.

Less encouraging news comes from factory earnings which was the only major category to show a drop in September. There was a loss of over 120,000 factory jobs, according to the Labor Department. The drop is temporary. As it is seen from Table 1.60 the "Compensation of employees" data show a healthy 8.5 percent increase in 1985 over 1984. That is in line with increments of personal income and personal disposable income for that year. A comparison of "Compensation of employees" data with those for personal income and personal disposable income for 1986 also looks "okay."

No significant changes in forecast data for corporate after-tax profits took place when compared to the last month's forecast.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted
at annual rates)

| | | | | | 1984 | | | |
|---|---|---|---|---|---|---|---|---|
| Indicator | Unit | 1983* | 1* | 2* | 3 | 4 | 1984 | % (1) |
| Personal income | bil.$ | 2744.2 | 2920.5 | 2982.3 | 3047.7 | 3104.7 | 3013.8 | 9.8 |
| Personal disposable income | bil.$ | 2340.1 | 2502.2 | 2554.3 | 2604.8 | 2651.0 | 2578.1 | 10.2 |
| Compensation of employees | bil.$ | 1984.9 | 2113.4 | 2159.2 | 2191.2 | 2261.2 | 2181.3 | 9.9 |
| Corporate after tax profits | bil.$ | 127.4 | 150.6 | 150.2 | 153.7 | 151.5 | 151.5 | 18.9 |
| Personal saving | bil.$ | 118.1 | 152.5 | 146.8 | 164.7 | 158.2 | 155.6 | 31.8 |
| Average weekly earnings | $ | 354.5 | 366.2 | 370.1 | 368.9 | 369.1 | 368.6 | 4.0 |

| | | | | | 1985 | | | |
|---|---|---|---|---|---|---|---|---|
| Indicator | Unit | 1984 | 1 | 2 | 3 | 4 | 1985 | % (1) |
| Personal income | bil.$ | 3013.8 | 3176.3 | 3232.4 | 3327.3 | 3371.6 | 3276.9 | 6.7 |
| Personal disposable income | bil.$ | 2578.1 | 2712.7 | 2759.0 | 2843.8 | 2879.2 | 2798.7 | 8.6 |
| Compensation of employees | bil.$ | 2181.3 | 2320.7 | 2364.5 | 2387.5 | 2396.8 | 2367.4 | 8.5 |
| Corporate after tax profits | bil.$ | 151.5 | 155.8 | 160.4 | 168.7 | 170.1 | 163.8 | 8.1 |
| Personal saving | bil.$ | 155.6 | 160.1 | 158.7 | 159.4 | 161.3 | 159.9 | 2.8 |
| Average weekly earnings | $ | 368.6 | 373.2 | 378.9 | 384.7 | 389.2 | 381.5 | 3.5 |

| | | | | | 1986 | | | |
|---|---|---|---|---|---|---|---|---|
| Indicator | Unit | 1985 | 1 | 2 | 3 | 4 | 1986 | % (1) |
| Personal income | bil.$ | 3276.9 | 3440.3 | 3501.0 | 3587.4 | 3650.4 | 3544.8 | 8.2 |
| Personal disposable income | bil.$ | 2798.7 | 2935.3 | 2988.4 | 3062.8 | 3117.5 | 3026.0 | 8.1 |
| Compensation of employees | bil.$ | 2367.4 | 2460.7 | 2490.1 | 2576.8 | 2620.9 | 2537.1 | 7.4 |
| Corporate after tax profits | bil.$ | 163.8 | 171.8 | 173.4 | 183.2 | 189.9 | 179.6 | 9.6 |
| Personal saving | bil.$ | 159.9 | 157.5 | 159.2 | 164.3 | 167.6 | 162.2 | 1.4 |
| Average weekly earnings | $ | 381.5 | 395.6 | 399.2 | 407.6 | 416.4 | 404.7 | 6.1 |

*Historical data (1) % change over previous year

## 1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

KEDI anticipates that the Federal Reserve Open Market Committee will vote some relaxation of monetary and credit policies at the November 7 meeting. Secretary of the Treasury Donald Regan indicated that any easing of money over the next several months would mean some continuation of the decline in interest rates. KEDI agrees. It is assumed here that the loosening will be quite slight and also fairly temporary.

Reasons for relaxing being seen as short in duration and undramatic in depth are presented here.

1. Any significant drop in interest rates would discourage foreign investment and divert foreign funds from helping to finance our federal deficits.

2. There is no real need for substantial drops in interest rates. One of the main factors that was pushing them upwards was strong consumer demand for durables which the unprecedented surge in consumer credit documents most convincingly. A strong consumer demand persists even NOW and it is not seen as abating in the foreseeable future.

3. The money supply "behaves well." The increase in M1 and other monetary aggregates are in line with the overall growth of the economy. For example, data on M1 for July-October show an increase of $3 billion. That is compatible with the growth of the economy for that period. Any significant gain in the current growth of monetary aggregates could lead to renewed inflation concerns of a real kind.

4. There is no recession forecast over the next few years. Growth is seen as moderate and sustained, and excess money and credit stimulus would necessarily be inflationary.

### TABLE 1.70 MONEY AND CREDIT

(Data for "Currency and demand deposits, Ml", "Time deposits,adjusted,M2",and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | (1) |
| Currency and demand deposits,Ml | bil.$ | 509.0 | 532.7 | 540.8 | 547.1 | 551.4 | 543.0 | 6.7 |
| Time deposits, adjusted,M2 | bil.$ | 2115.9 | 2217.3 | 2257.7 | 2293.0 | 2367.8 | 2284.0 | 7.9 |
| Consumer instal. credit | bil.$ | 387.9 | 402.5 | 427.6 | 441.5 | 449.7 | 449.7 | 15.9 |
| Commerc. & indus. loans at banks | bil.$ | 413.0 | 428.2 | 453.2 | 463.8 | 470.6 | 470.6 | 13.9 |
| Large denomination time dep. | bil.$ | 307.5 | 340.7 | 354.1 | 347.1 | 356.2 | 349.5 | 13.7 |
| Mortgages at S&L Assns. | bil.$ | 493.4 | 502.1 | 526.8 | 532.8 | 538.3 | 538.3 | 9.1 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Currency and demand deposits,Ml | bil.$ | 543.0 | 562.1 | 568.4 | 571.1 | 575.2 | 569.2 | 4.8 |
| Time deposits, adjusted,M2 | bil.$ | 2284.0 | 2410.6 | 2468.5 | 2514.2 | 2557.3 | 2487.7 | 8.9 |
| Consumer instal. credit | bil.$ | 449.7 | 453.2 | 456.7 | 460.3 | 465.8 | 465.8 | 3.6 |
| Commerc. & indus. loans at banks | bil.$ | 470.6 | 479.2 | 489.5 | 491.3 | 493.6 | 493.6 | 4.9 |
| Large denomination time dep. | bil.$ | 349.5 | 355.8 | 356.2 | 362.7 | 369.4 | 361.0 | 3.3 |
| Mortgages at S&L Assns. | bil.$ | 538.3 | 540.7 | 548.6 | 551.2 | 553.7 | 553.7 | 2.9 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Currency and demand deposits,Ml | bil.$ | 569.2 | 583.4 | 590.7 | 604.1 | 615.9 | 598.5 | 5.1 |
| Time deposits, adjusted,M2 | bil.$ | 2487.7 | 2636.5 | 2698.7 | 2764.2 | 2835.7 | 2733.6 | 9.9 |
| Consumer instal. credit | bil.$ | 465.8 | 468.2 | 471.3 | 478.6 | 485.7 | 485.7 | 4.3 |
| Commerc. & indus. loans at banks | bil.$ | 493.6 | 495.7 | 497.3 | 504.1 | 510.9 | 510.9 | 3.5 |
| Large denomination time dep. | bil.$ | 361.0 | 374.5 | 379.8 | 378.4 | 376.5 | 377.3 | 4.5 |
| Mortgages at S&L Assns. | bil.$ | 553.7 | 555.1 | 557.4 | 563.6 | 570.8 | 570.8 | 3.1 |

*Historical data (1) % change over previous year

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

KEDI maintains the position that was first expressed over two years ago:

1. Interest rates will remain at high levels--a decline from something like 13 percent to 12 percent still leaves them high by historic standards.
2. Federal Reserve monetary and credit policies will remain tight. Look to general softening no earlier than late 1986.

This Institute agrees with the view that any declines are going to be rather short-lived and not very large as expressed by Alan Greenspan of Townsend-Greenspan and Irwin Kellner of Manufacturers Hanover Trust. KEDI even agrees with Henry Kaufman of Salomon Brothers that the interest rate declines have just been a "pleasant interlude."

However, the view of Mr. Kellner predicting the prime rate would jump back up to 13 percent by the end of the year and 14 percent by mid-1985 is strongly disagreed with here. As can be seen in Table 1.80 the prime rate is seen as averaging 12.02 in the last quarter of this year, 11.0 in the first quarter of the next year, 11.10 in the second quarter, and 12.0 in the third quarter of 1985. That shows moderate increases followed by a stabilizing.

To speak of easing, one has to keep in mind the prime rate was at 11 percent in the first part of this year. That is, it means easing from the July-August peaks AND NO MORE.

The forecast of the stock and bond markets remain essentially the same with present rallies viewed as temporary. The post-election downturn will not be as deep as previously anticipated which has lead to some slight upward revision in the forecast for the first quarter of 1985.

### TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Quarterly averages of monthly figures)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | (1) |
| Treasury bills (3 mo yield) | % | 8.61 | 9.17 | 9.81 | 10.27 | 8.86 | 9.63 | 11.8 |
| Prime rate | % | 10.70 | 11.08 | 12.31 | 13.00 | 12.02 | 12.10 | 13.1 |
| Conventional mortgage rate | % | 13.43 | 13.57 | 13.98 | 14.45 | 13.89 | 13.97 | 4.0 |
| Aaa corporate bonds rate | % | 12.04 | 12.28 | 12.97 | 13.14 | 12.41 | 12.70 | 5.5 |
| 20 years Govt. bonds yield | % | 11.34 | 12.16 | 12.68 | 12.64 | 12.27 | 12.44 | 9.7 |
| Standard & Poor's 500 Average | 1941-43 =100 | 160.41 | 160.02 | 160.04 | 162.12 | 164.17 | 161.58 | .7 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Treasury bills (3 mo yield) | % | 9.63 | 8.74 | 9.05 | 9.24 | 10.98 | 9.32 | -3.2 |
| Prime rate | % | 12.10 | 11.00 | 11.10 | 12.00 | 12.24 | 11.59 | -4.2 |
| Conventional mortgage rate | % | 13.97 | 13.64 | 13.54 | 13.72 | 13.80 | 13.65 | -2.3 |
| Aaa corporate bonds rate | % | 12.70 | 11.72 | 11.30 | 11.56 | 12.47 | 11.76 | -7.4 |
| 20 years Govt. bonds yield | % | 12.44 | 11.86 | 11.43 | 11.51 | 11.86 | 11.67 | -6.2 |
| Standard & Poor's 500 Average | 1941-43 =100 | 161.58 | 162.37 | 160.85 | 158.27 | 156.34 | 159.46 | -1.3 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Treasury bills (3 mo yield) | % | 9.32 | 11.06 | 10.45 | 9.14 | 8.04 | 9.47 | 1.6 |
| Prime rate | % | 11.59 | 12.30 | 12.10 | 10.82 | 10.12 | 11.34 | -2.2 |
| Conventional mortgage rate | % | 13.65 | 13.95 | 13.64 | 13.08 | 12.73 | 13.35 | -2.2 |
| Aaa corporate bonds rate | % | 11.76 | 12.65 | 12.32 | 11.89 | 11.14 | 12.00 | 2.0 |
| 20 years Govt. bonds yield | % | 11.67 | 12.13 | 12.47 | 11.86 | 11.43 | 11.97 | 2.6 |
| Standard & Poor's 500 Average | 1941-43 =100 | 159.46 | 154.28 | 149.38 | 150.45 | 159.84 | 153.49 | -3.8 |

*Historical data (1) % change over previous year

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

This November 1984 issue describes the relationships between the Kent Model's Aggregative Division and the Financial Division.

## 6.00 NATIONAL INCOME AND PRODUCT DATA AND THE FLOW OF FUNDS DATA

The Kent Model's Financial Division is represented by 23 financial sectors of the U.S. economy and 43 markets on financial instruments. The representation of financial sectors and financial markets corresponds with that used by the Board of Governors of the Federal Reserve System in its Flow-of-Funds Tables (See: Flow of Funds Accounts, Publication Z.1, monthly, Board of Governors of the Federal Reserve System, Washington, D.C., and other Board of Governors of the Federal Reserve System publications on Flow of Funds.)

### 6.10 FINANCIAL SECTORS

In the Kent Model the sectoral breakdown is the following:

| NAME | NUMBER OF SECTORS |
|---|---|
| HOUSEHOLDS | 1 |
| BUSINESS | 1 |
| FEDERAL GOVERNMENT | 1 |
| STATE AND LOCAL GOVERNMENTS | 2 |
| FEDERALLY SPONSORED CREDIT AGENCIES | 1 |
| MONETARY AUTHORITIES | 1 |
| COMMERCIAL BANKS | 3 |
| SAVING INSTITUTIONS | 3 |
| OTHER NONBANK FINANCE | 8 |
| REST OF THE WORLD | 1 |
| SECTORAL DISCREPANCIES | 1 |
| TOTAL | 23 |

Each sector is represented by its financial assets and financial liabilities. In each sector, ordering of assets and liabilities follows the ordering used in the Board of Governors Flow of Funds Tables.

THE KENT ECONOMIC FORECASTING SYSTEM

## 6.20 FINANCIAL MARKETS

The market breakdown is the following:

| NAME | NUMBER OF MARKETS |
|---|---|
| MONETARY AND INSURANCE RESERVES | 12 |
| DEPOSITS | 4 |
| U.S. GOVERNMENT SECURITIES | 3 |
| STATE AND LOCAL GOVERNMENT SECURITIES | 1 |
| PRIVATE SECURITIES | 2 |
| MORTGAGES | 2 |
| CONSUMER CREDIT | 2 |
| BANK LOANS | 4 |
| SECURITY CREDIT, TRADE CREDIT, AND TAXES | 4 |
| MISCELLANEOUS | 8 |
| TRANSACTIONS DISCREPANCIES | 1 |
| TOTAL | 43 |

Compared to the Board of Governors of the Federal Reserve System Flow of Funds Tables, the Kent Model's financial markets correspond to the Flow of Funds transactions.

In the Kent Model, each financial market is represented by sets of financial assets of sectors (the demand side of each market) nad by sets of financial liabilities of sectors (the supply side of each market.) In the Model's historical data base and in the forecasts outputs each market is represented as cleared, i.e. in equilibrium. That means in each market the total of sectors' financial assets entering that market equals the total of sectors' liabilities of that market plus exogenous transactions discrepancy for that market.

(CONTINUED)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Nonresidential Fixed Investment in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.6, June 1984, Table 1.1. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

### TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Nonresidential Fixed Investment, 1983, bil. $)

Actual figure: 347.7

| Forecaster(and page in source) | Date of Forecast | Forecast | Accuracy (%) |
|---|---|---|---|
| Albert T. Sommers, The Conference Board,pg 8 | 11/17/82 | 350.0 | .7 |
| Calvin R. Myers, The Merchants National Bank of Aurora, pg 10 | 12/82 | 351.0 | .9 |
| Walter D. Fackler, University of Chicago, pg 12 | 12/8/82 | 351.0 | .9 |
| J.A. Livingston, pg 14 | 12/27/82 | 333.0 | -4.4 |
| Manufacturers Hanover Trust Company, pg 22 | 12/82 | 335.4 | -3.5 |
| UCLA Business Forecasting Project, pg 23 | 12/82 | 332.3 | -4.4 |
| Metropolitan Life Insurance Company, pg 24 | 12/1/82 | 352.3 | 1.3 |
| The Fidelity Bank, pg 25 | 12/8/82 | 345.0 | -.8 |
| Citibank Economic Forecasting Service, pg 26 | 12/9/82 | 352.8 | 1.3 |
| Data Resources, Inc., pg 28 | 12/24/82 | 331.3 | -4.7 |
| Chase Econometrics, pg 29 | 12/29/82 | 344.1 | -1.0 |
| Kent Economic and Development Institute,pg 30 | 1/1/83 | 355.4 | 2.2 |
| Standard & Poor's Corporation, pg 34 | 1/6/83 | 335.1 | -3.6 |
| Morgan Guaranty Trust Company of New York,pg 35 | 1/7/83 | 336.2 | -3.3 |

## 4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

### TABLE 3.0 HISTORICAL DATA SOURCES

| Table No. | Data Series | Source |
|---|---|---|
| 1.11 SELECTED INDICATORS OF REAL GROWTH | Gross national product, 1972$ | SCB, Table 1.2 |
| | Index of industrial production | IIP, page 2 |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 REAL GNP | Gross national product, 1972$ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 PRICES | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: | |
| | GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Gross private dom. investment | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| 1.22 NOMINAL GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| 1.30 EMPLOYMENT AND LABOR | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employed | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page)

TABLE 3.00 HISTORICAL DATA SOURCES (CONTINUED)

| Table No. | Data Series | Source |
|---|---|---|
| 1.41 HOUSING | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 AUTOMOBILES | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, blue pages |
| | Light-duty truck sales | SCB, blue pages |
| 1.50 FEDERAL AND STATE AND LOCAL BUDGETS | Federal govt.: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/deficit | SCB, Table 3.2 |
| | State and local govts.:Income taxes | SCB, Table 3.3 |
| | Corporate profit tax accruals | SCB, Table 3.3 |
| | Surplus/deficit | SCB, Table 3.3 |
| 1.60 INCOME | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 MONEY AND CREDIT | Currency and demand deposits,M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES | Treasury bills (3 mo) yield | FRB, Table 1.10 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgages rate | FRB, Table 1.10 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.10 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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## DECEMBER 1984 ISSUE

President: Dr. Vladimir J. Simunek

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Editor and Assistant Writer: Diane L. Lewis

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## CONTENTS

Page

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY 1
0.02 OVERVIEW 2
0.03 ASSUMPTIONS 4
0.04 FORECAST HIGHLIGHTS 4

1.00 DETAILED FORECASTS

1.10 REAL GROWTH 6
1.20 PRICES AND NOMINAL GNP
    1.21 PRICES 8
    1.22 NOMINAL GNP 10
1.30 EMPLOYMENT AND LABOR 12
1.40 HOUSING AND AUTOMOBILES
    1.41 HOUSING 12
    1.42 AUTOMOBILES 16
1.50 BUDGETS 18
1.60 INCOME 20
1.70 MONEY AND CREDIT 22
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 24
2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED) 26
3.00 COMPARISONS OF ACCURACY OF PREDICTIONS 28
4.00 HISTORICAL DATA SOURCES 29

## TABLES

0,00 KEDI FORECAST HIGHLIGHTS 3
1.11 SELECTED INDICATORS OF REAL GROWTH 5
1.12 REAL GNP 7
1.21 PRICES 9
1.22 NOMINAL GNP 11
1.30 EMPLOYMENT AND LABOR 13
1.41 HOUSING 15
1.42 AUTOMOBILES 17
1.50 BUDGETS 19
1.60 INCOME 21
1.70 MONEY AND CREDIT 23
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES 25
2.00 COMPARISONS OF ACCURACY OF PREDICTIONS 28
3.00 HISTORICAL DATA SOURCES 29

This forecast uses the November 20, 1984, U.S. Department of Commerce second estimates of 1984:3 National Income and Product data. Also used is the November 1984, Board of Governors of the Federal Reserve System release of the Index of Industrial Production,and the latest available data on prices, employment, industrial, and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

The slow rate of growth of the third quarter is not the start of a trend toward recession. Expect fourth quarter growth of close to 2 percent and the continuation of modest growth through the next two years. GNP totals from the government include net exports which drags down the figure a bit. Domestic growth of the economy was above the figure released if that large import growth and small export growth are "set aside."

GROWTH The economic news continued to be mixed with slow growth becoming the norm as has been anticipated here. KEDI does not share the view that the Administration expressed for growth of 4 percent in 1985. Look to a lower rate of 2.8 percent. PRICES The forecast remains the same with moderate inflation during the next few years. Pressure from imports help keep prices down, and the outlook for wage and salary gains are in the 5 percent range through the rest of this decade. Stability forecast by KEDI for oil prices and the international value of the dollar contribute to the outlook of inflation being in the 4-5 percent range during the rest of the 80's. EMPLOYMENT AND LABOR The forecast is adjusted in the jobless rate for 1985 to an average of 7.5 percent and a slight decrease in the projection of the size of the civilian labor force. Unemployment will remain relatively high with the total growing a bit toward 8.9 million as a 1986 average. HOUSING There is a downward adjustment in the forecast for housing starts but the general trend is the same: a weak market during the next two years. AUTOS There is a slight change in the outlook for car sales during 1985 and 1986 but the general trend is the same: gradual declines from this year. BUDGETS The general forecast of deficit reduction after next year is the same, but there is a downward revision for corporate taxes. Surpluses of state and local budgets will grow by 13 percent in 1985 and by 20 percent in the following year. INCOME Corporate profits expected have been revised downward. Look to such profits to gain by 4.6 percent in 1985. MONEY AND CREDIT The easing will be moderate through the first quarter of 1985 and then some tightening is expected. INTEREST RATES, YIELDS, AND SECURITIES PRICES Rates and yields are slightly lowered in this Survey. Look to a Federal Funds Rate of 8.92 at the end of this year and 9.53 in mid-1985.

## 0.02 OVERVIEW

Recent data indicate the economy is slowed. This is seen as an expected result of the frantic pace of the first part of this year. Straight-line projections are not an order of the day, i.e., recession has not started and will not start this year or in the next few years.

In particular, the third quarter drop in GNP growth down to a 1.9 percent rate, adjusted for inflation, as compared to the second quarter was caused mainly by net exports that deteriorated by $15 billion and by smaller increments in personal consumption spending. Neither of these point to any recessionary trend:

(a) The net export decline as compared to prior quarters was caused by a large increase in imports coupled with a quite modest rise in exports -- NOT A DROP IN EXPORTS. Thus, more goods were imported. That's all. In the mathematics of calculations of GNP, it (net exports) was shown as a negative number meaning a reduction in the growth of GNP. In actuality, there was more growth between the second and third quarter in terms of adjusted GNP than 1.9 percent. Setting aside the net exports distortion, shows growth reduced from the second quarter pace but not nearly so much. It would be worse IF exports went down, but that was not the case.

(b) Personal Consumption Expenditures (PCE) did slow. However, that was not too bad a sign as Personal Saving increased by $20 billion compared to the second quarter! Hence, the slack in PCE was more than taken up by the rise in saving. In addition, KEDI shares the view of economists that look to a strong Christmas buying surge pushing the PCE to a more normal level. Already, there are reports of luxury goods selling at a rapid pace such as $100 mink teddy bears and $500 designer copies of dresses worn on such shows as "Falcon Crest" -- unfamiliar to the staff here.

Look to fourth quarter growth somewhat above 2 percent and the yearly expansion to be close to 6.8 percent this year and 2.8 percent in 1985.

## KEDI FORECAST HIGHLIGHTS

### TABLE 0.00

| Indicator | Unit | 1984 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Gross national | bil.72% | 1638.4 | 1726.3 | 1788.4 | 1874.2 |
| product | % change | 6.8 | 2.5 | 3.6 | 4.8 |
| Index of industrial | 1967=100 | 163.6 | 172.2 | 182.4 | 195.7 |
| production | % change | 10.7 | 2.5 | 5.9 | 7.3 |
| Capacity | % | 81.8 | 81.1 | 81.9 | 82.3 |
| utilization | % change | 12.3 | -.6 | 1.0 | .5 |
| Unemployment | % | 7.56 | 7.40 | 7.10 | 6.87 |
| rate | % change | -21.1 | -.4 | -4.1 | -3.3 |
| Private housing | mil. units | 1.764 | 1.544 | 1.729 | 1.921 |
| starts | % change | 13.6 | -4.5 | 12.0 | 11.1 |
| Car | mil. units | 10.5 | 9.8 | 10.4 | 11.4 |
| sales | % change | 14.1 | -3.5 | 5.9 | 9.8 |
| Implicit GNP | 1972=100 | 223.4 | 244.3 | 257.7 | 272.4 |
| price deflator | % change | 3.8 | 5.1 | 5.5 | 5.7 |
| Consumer price | 1976=100 | 311.3 | 343.0 | 362.2 | 383.2 |
| index | % change | 4.3 | 5.3 | 5.6 | 5.8 |
| Producer price index | 1976=100 | 291.5 | 319.6 | 341.3 | 364.8 |
| (Finished goods) | % change | 2.2 | 6.6 | 6.8 | 6.9 |
| Federal | bil.$ | -171.1 | -157.1 | -156.4 | -151.1 |
| deficit | % change | -4.2 | -9.0 | -1.1 | -3.4 |
| Personal | bil.$ | 3007.3 | 3508.5 | 3855.8 | 4272.2 |
| income | % change | 9.6 | 8.2 | 9.9 | 10.8 |
| Prime | % | 11.93 | 11.18 | 10.31 | 9.41 |
| rate | % change | 11.5 | 2.7 | -7.8 | -8.7 |
| Mortgage | % | 13.91 | 13.31 | 12.31 | 11.18 |
| rate | % change | 3.6 | -1.0 | -7.5 | -9.2 |
| Currency plus | bil.$ | 543.6 | 599.5 | 637.9 | 681.9 |
| demand deposits | % change | 6.8 | 5.0 | 6.4 | 6.9 |
| Commercial and | bil.$ | 471.3 | 513.6 | 531.1 | 561.9 |
| industrial loans | % change | 14.1 | 3.6 | 3.4 | 5.8 |

Numbers in "% change" rows show percent changes over the previous year

## 0.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared to assumptions incorporated into the last issue, no change in assumptions took place.

1. In 1984, the weighted price of oil will be $29 per barrel; in 1985 it will be slightly lower; in 1986 it will go up to $30 per barrel; in 1987, to $32 per barrel; and in 1988, $33 per barrel.

2. It is expected that the Mid East problems will continue throughout this year and the next year and more normal conditions will take place not earlier than in 1986 or 1987.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1984-1986 period. Relaxation will start in 1986. It will continue in 1987.

4. In 1985, assume U.S. record crops, and in the U.S.S.R. and China, average crops will take place. In 1986 good crops in all main producing countries are anticipated.

6. Average rates of growth in 1983-1987 in the major industrial countries are anticipated: West Germany 2.9%; Italy 2.5%; Great Britain 2.3%; France 2.2%; Japan 2.6%.

6. No drastic changes in international relationships are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the December 1984 KEDI forecast. In 1985 and 1986 a general slowdown is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988 and the following years. Forecast data for 1984-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining. The export-import gap will start closing to a more sustainable level in 1987 and the following years.

### TABLE 1.11 SELECTED INDICATORS OF REAL GROWTH

(Quarterly data are seasonally adjusted
at annual rates)

| Indicator | Unit | 1983* | 1984 |  |  |  | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
|  |  |  | 1 * | 2 * | 3 | 4 |  |  |
| Gross national product | bil. 72$ | 1534.7 | 1610.9 | 1638.8 | 1646.5 | 1657.3 | 1638.4 | 6.8 |
| Index of industrial production | 1967=100 | 147.7 | 159.8 | 163.1 | 165.7 | 165.7 | 163.6 | 10.7 |
| Unemployment rate | % | 9.6 | 7.9 | 7.5 | 7.5 | 7.5 | 7.6 | -21.1 |
| Capacity utilization rate | % | 72.5 | 80.6 | 81.6 | 82.6 | 82.3 | 81.8 | 12.3 |
| Private housing starts | mil. | 1.703 | 1.968 | 1.906 | 1.656 | 1.526 | 1.764 | 3.6 |
| Car sales | mil. | 9.2 | 10.6 | 10.6 | 10.5 | 10.3 | 10.5 | 14.1 |

| Indicator | Unit | 1984 | 1985 |  |  |  | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
|  |  |  | 1 | 2 | 3 | 4 |  |  |
| Gross national product | bil. 72$ | 1638.4 | 1670.1 | 1679.2 | 1686.6 | 1699.7 | 1683.9 | 2.8 |
| Index of industrial production | 1967=100 | 163.6 | 166.4 | 168.1 | 168.5 | 169.1 | 168.0 | 2.8 |
| Unemployment rate | % | 7.6 | 7.5 | 7.4 | 7.5 | 7.6 | 7.5 | -1.1 |
| Capacity utilization rate | % | 81.8 | 82.1 | 81.9 | 81.4 | 81.1 | 81.6 | -.2 |
| Private housing starts | mil. | 1.764 | 1.562 | 1.661 | 1.751 | 1.495 | 1.617 | -8.3 |
| Car sales | mil. | 10.5 | 10.3 | 10.2 | 10.0 | 9.8 | 10.1 | -4.0 |

| Indicator | Unit | 1985 | 1986 |  |  |  | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
|  |  |  | 1 | 2 | 3 | 4 |  |  |
| Gross national product | bil. 72$ | 1683.9 | 1708.2 | 1717.4 | 1732.6 | 1747.1 | 1726.3 | 2.5 |
| Index of industrial production | 1967=100 | 168.0 | 169.0 | 169.7 | 172.4 | 177.8 | 172.2 | 2.5 |
| Unemployment rate | % | 7.5 | 7.7 | 7.5 | 7.3 | 7.2 | 7.4 | -.9 |
| Capacity utilization rate | % | 81.6 | 81.1 | 80.8 | 81.1 | 81.4 | 81.1 | -.6 |
| Private housing starts | mil. | 1.617 | 1.466 | 1.455 | 1.661 | 1.594 | 1.544 | -4.5 |
| Car sales | mil. | 10.1 | 9.5 | 9.7 | 9.8 | 10.0 | 9.8 | -3.5 |

*Historical data (1) % change over previous year

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

(Tables 1.11 and 1.12 on pages 5 and 7)

The pace of the economy for the last part of this year will depend on two factors: Holiday shopping and whether the drop in interest rates is deep enough to nudge growth a bit higher. KEDI looks to a healthy holiday and some fractional additional edging down in interest rates.

As to the first point, KEDI agrees with the view that December retail sales will be about 8 percent higher this year than last year, or about 5 percent after adjustment for inflation. The forecast here for fourth quarter Personal Consumption spending in constant dollars is that it will show a healthy gain of approximately $8 billion.

As to interest rates, indications are that the time of substantial declines are over. KEDI shares the view of many economists that the Fed will not push interest rates much lower. (See more in Section 1.8.)

The economic news had been mixed as expected. For instance:

1. In October, durable-goods orders were off 4.1 percent. Some see that as fuel for recession fears. KEDI shares an opposite view. Six quarters of solid growth lead to a lack of surprise that such orders finally taper off.
2. Capital spending will slow from the estimate of 13-14 percent for this year to a 9.8 percent pace in 1985 according to McGraw-Hill survey.
3. The industrial production index was the same in October as in the prior month and this was mostly attributable to the declines in mining, furniture, and home appliances output along with ripples from the Canadian GM strike. Other areas showed expansion, especially business equipment and defense and space.

As to 1985, KEDI does not share the optimistic view of the Administration and some economists that growth will be near 4 percent. Expect it to slow more to a pace closer to 3 percent, specifically 2.8.

## TABLE 1.12 REAL GNP

(Quarterly data are seasonally adjusted
at annual rates)

| Indicator | Unit | 1983* | 1984<br>1* | 2* | 3 | 4 | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product | bil. 72$ | 1534.7 | 1610.9 | 1638.8 | 1646.5 | 1657.3 | 1638.4 | 6.8 |
| Personal cons. expenditures | bil. 72$ | 1009.2 | 1044.1 | 1064.3 | 1065.6 | 1074.2 | 1062.1 | 5.2 |
| Gross private dom.investment | bil. 72$ | 221.0 | 285.6 | 283.9 | 300.6 | 304.1 | 293.6 | 32.8 |
| Net exports | bil. 72$ | 12.6 | -8.3 | -11.5 | -26.6 | -31.2 | -19.4 | -- |
| Federal govt. purchases | bil. 72$ | 116.2 | 112.2 | 123.2 | 125.7 | 127.0 | 122.0 | 5.0 |
| State and local purchases | bil. 72$ | 175.7 | 177.3 | 178.9 | 181.4 | 183.2 | 180.2 | 2.6 |

| Indicator | Unit | 1984 | 1985<br>1 | 2 | 3 | 4 | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product | bil. 72$ | 1638.4 | 1670.1 | 1679.2 | 1686.6 | 1699.7 | 1683.9 | 2.8 |
| Personal cons. expenditures | bil. 72$ | 1062.1 | 1089.7 | 1095.9 | 1099.0 | 1109.8 | 1098.6 | 3.4 |
| Gross private dom.investment | bil. 72$ | 293.6 | 299.4 | 298.7 | 299.6 | 300.9 | 299.7 | 2.1 |
| Net exports | bil. 72$ | -19.4 | -30.8 | -29.6 | -28.1 | -29.3 | -29.5 | -- |
| Federal govt. purchases | bil. 72$ | 122.0 | 127.2 | 128.1 | 129.0 | 129.8 | 128.5 | 5.5 |
| State and local purchases | bil. 72$ | 180.2 | 184.6 | 186.1 | 187.1 | 188.5 | 186.6 | 3.5 |

| Indicator | Unit | 1985 | 1986<br>1 | 2 | 3 | 4 | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
| Gross national product | bil. 72$ | 1683.9 | 1708.2 | 1717.4 | 1732.6 | 1747.1 | 1726.3 | 2.5 |
| Personal cons. expenditures | bil. 72$ | 1098.6 | 1118.1 | 1122.0 | 1126.9 | 1131.3 | 1124.5 | 2.4 |
| Gross private dom.investment | bil. 72$ | 299.7 | 298.1 | 300.4 | 305.9 | 311.8 | 304.1 | 1.5 |
| Net exports | bil. 72$ | -29.5 | -28.0 | -27.6 | -26.0 | -24.3 | -26.5 | -- |
| Federal govt. purchases | bil. 72$ | 128.5 | 130.2 | 131.3 | 132.8 | 134.2 | 132.1 | 2.8 |
| State and local purchases | bil. 72$ | 186.6 | 189.8 | 191.3 | 193.0 | 194.1 | 192.0 | 2.9 |

*Historical data (1) % change over previous year

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

(Table 1.21 on page 9)

The forecast remains the same. The CPI, Consumer Price Index rose 0.4 percent in October just as it had in September. Transportation lead the generally modest gains by increasing 0.7 percent in October. Both the medical care and apparel and upkeep categories gained 0.5 percent. Three other major sections posted a 0.4 percent change: food and beverages, entertainment, and other goods and services. Housing was barely changed as the early estimate showed it edged up just 0.1 percent in October. Goods costing $100 in 1967 cost $315.30 in that month.

Producer prices continued to move downward in October. Such prices for finished goods were off 0.2 percent. Behind the drop, one found lower prices, seasonally adjusted, for new cars. Overall, the PPI is just 1.4 percent higher than it was a year ago.

KEDI expects inflation this year to amount to 4.3 percent and looks to a 4.6 percent rate in 1985. Anticipate generally moderate price gains over the next four years: an average of 4-5 percent from 1985 through 1989.

Contributing to the somewhat low levels of price hikes in the U.S.A. are these major factors:

1. Moderate wage increases are expected for both blue and white-collar workers. KEDI forecasts a 5 percent average each year over the next four years.

2. Competitive pressures from imports will continue throughout the 1985-89 period. Look to the dollar rate of exchange to remain high in those years. At the same time the rate of inflation in this nation will be somewhat lower than that of other major nations. The rate of inflation in other industrialized nations is projected by KEDI in the 5-8 percent range in those years. It is expected that in 1985 the value of the U.S. dollar as measured in Swiss Francs will hover around 2.4 and remain essentially stable in the following years.

3. Prices of oil will remain fairly stable over the next four years. KEDI assumes (See Assumption 1. on page 4) that the average

## TABLE 1.21 PRICES
(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | |
| Consumer price index, n.s.a.** | 1967= 100 | 298.4 | 306.4 | 309.7 | 313.1 | 315.9 | 311.3 | 4.3 |
| Producer price index, n.s.a.** | 1967= 100 | 285.2 | 290.6 | 291.4 | 291.4 | 292.5 | 291.5 | 2.2 |
| Price deflators: | | | | | | | | |
| GNP | 1972= 100 | 215.2 | 220.6 | 222.4 | 224.4 | 226.0 | 223.4 | 3.8 |
| Personal cons. expenditures | 1972= 100 | 213.6 | 218.5 | 220.8 | 220.3 | 222.3 | 220.2 | 2.4 |
| Federal purchases | 1972= 100 | 234.9 | 243.3 | 246.7 | 248.4 | 250.2 | 247.2 | 5.2 |
| State and local purchases | 1972= 100 | 237.9 | 246.3 | 250.1 | 253.2 | 255.6 | 251.3 | 5.6 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Consumer price index, n.s.a.** | 1967= 100 | 311.3 | 319.0 | 322.5 | 328.6 | 332.7 | 325.7 | 4.6 |
| Producer price index, n.s.a.** | 1967= 100 | 291.5 | 294.6 | 297.5 | 301.1 | 306.0 | 299.8 | 2.8 |
| Price deflators: | | | | | | | | |
| GNP | 1972= 100 | 223.4 | 228.1 | 230.8 | 233.8 | 237.0 | 232.4 | 4.0 |
| Personal cons. expenditures | 1972= 100 | 220.2 | 223.2 | 227.6 | 231.5 | 234.5 | 229.7 | 4.3 |
| Federal purchases | 1972= 100 | 247.2 | 252.3 | 253.7 | 254.1 | 256.3 | 254.1 | 2.8 |
| State and local purchases | 1972= 100 | 251.3 | 257.8 | 259.4 | 261.0 | 263.1 | 260.3 | 3.6 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Consumer price index, n.s.a.** | 1967= 100 | 325.7 | 336.4 | 340.7 | 344.8 | 350.0 | 343.0 | 5.3 |
| Producer price index, n.s.a.** | 1967= 100 | 299.8 | 311.7 | 316.3 | 321.9 | 328.4 | 319.6 | 6.6 |
| Price deflators: | | | | | | | | |
| GNP | 1972= 100 | 232.4 | 239.8 | 243.1 | 246.3 | 248.1 | 244.3 | 5.1 |
| Personal cons. expenditures | 1972= 100 | 229.7 | 238.7 | 242.5 | 246.5 | 248.3 | 244.1 | 6.3 |
| Federal purchases | 1972= 100 | 254.1 | 257.7 | 259.2 | 260.4 | 262.1 | 259.6 | 2.3 |
| State and local purchases | 1972= 100 | 260.3 | 265.5 | 267.2 | 268.4 | 270.1 | 267.8 | 2.9 |

*Historical data (1) % change over previous year **CPI: All Urban Consumers;
PPI: Finished Goods

PRICES

price of oil will remain in the area around $28-30 per barrel in that period. That view has been held here since the early part of this year. It is just NOW that the consensus view has come around to a similar but broader range of $25-30. An energy conference sponsored by John Hopkins Foreign Policy Institute made that forecast in November. It is acknowledged that such forecasts are subject to a range of uncertainties in the future and assumptions proven false in the past. For example, in the early 1980's, many experts predicted that inflation adjusted oil prices would go up to $100 per barrel due to growing semand. KEDI never saw them anywhere near that high. Such experts, looking back, admit to being way off base and not giving enough weight to such factors as conservation efforts, and troughs of the business cycle, actions by non-OPEC nations, and instability within OPEC countries.

## 1.22 NOMINAL GNP

(Table 1.22 on page 11)

Forecast data on GNP and components reflect the expected slowdown of the economy in 1985 and the first part of 1986 and acceleration during the latter part of that year. In 1985 the main components of GNP that will contribute to the slowdown in the growth of GNP are Gross private domestic investment and Net exports. As it is seen from Table 1.22 on the following page, the growth rate of nominal business capital outlays including financing of growing inventories, will drop from this year's 37 percent to next year's 4.6 percent. That corresponds with the generally expected significant slowdown in business investment into plant and equipment and structures and relatively small increases and some decreases in business inventories in the coming year. As seen from the data, a rebound in business investment is expected not earlier than in the latter part of 1986. Net exports will remain uncomfortably negative. KEDI's long-term outlook shows improvements in the export-import gap will not start before 1987.

## TABLE 1.22 NOMINAL GNP

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 * | 2 * | 3 | 4 | | |
| Gross national product | bil.$ | 3304.8 | 3553.3 | 3644.7 | 3695.2 | 3745.5 | 3659.7 | 10.7 |
| Personal cons. expenditures | bil.$ | 2155.9 | 2276.5 | 2332.9 | 2360.7 | 2381.9 | 2338.0 | 8.4 |
| Gross private dom.investment | bil.$ | 471.6 | 626.8 | 626.8 | 662.3 | 676.0 | 647.2 | 37.2 |
| Net exports | bil.$ | -8.3 | -51.5 | -58.8 | -89.9 | -98.5 | -74.7 | -- |
| Federal purchases | bil.$ | 269.7 | 267.6 | 296.4 | 302.8 | 317.8 | 296.2 | 9.8 |
| State and local purchases | bil.$ | 415.8 | 436.8 | 447.4 | 459.3 | 468.3 | 453.0 | 8.9 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Gross national product | bil.$ | 3659.7 | 3809.5 | 3875.6 | 3943.3 | 4028.3 | 3913.9 | 6.9 |
| Personal cons. expenditures | bil.$ | 2338.0 | 2440.5 | 2499.0 | 2546.3 | 2611.8 | 2524.1 | 7.9 |
| Gross private dom.investment | bil.$ | 647.2 | 671.6 | 672.4 | 679.5 | 684.2 | 676.9 | 4.6 |
| Net exports | bil.$ | -74.7 | -99.4 | -103.5 | -98.6 | -96.3 | -99.5 | -- |
| Federal purchases | bil.$ | 296.2 | 320.9 | 325.0 | 327.8 | 332.7 | 326.5 | 10.2 |
| State and local purchases | bil.$ | 453.0 | 475.9 | 482.7 | 488.3 | 495.9 | 485.7 | 7.2 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Gross national product | bil.$ | 3913.9 | 4096.3 | 4175.0 | 4267.4 | 4334.6 | 4218.3 | 7.8 |
| Personal cons. expenditures | bil.$ | 2524.1 | 2669.0 | 2721.3 | 2777.4 | 2808.6 | 2744.5 | 8.8 |
| Gross private dom.investment | bil.$ | 676.9 | 680.0 | 689.7 | 706.0 | 724.3 | 700.0 | 3.4 |
| Net exports | bil.$ | -99.5 | -92.1 | -87.5 | -80.1 | -74.3 | -83.5 | -- |
| Federal purchases | bil.$ | 326.5 | 335.8 | 340.3 | 345.9 | 351.7 | 342.8 | 5.0 |
| State and local purchases | bil.$ | 485.7 | 503.9 | 511.2 | 518.0 | 524.3 | 514.2 | 5.9 |

*Historical data (1) % change over previous year

## 1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 13)

The forecast for the jobless rate is essentially the same, but there is a fractional upward adjustment to a 7.48 percent rate in 1985 as opposed to a 7.43 percent rate in the last Survey. The calculations of the size of the civilian labor force have been somewhat reduced. Expect it to expand by 1.9 percent this year, 2.4 percent in 1985 and 2.7 percent in 1986 over each prior year. Look to the size of the civilian labor force to be close to 120 million by the end of 1986.

Unemployment will still remain relatively high with the rate not changing much--edging down by tiny increments to the average of 7.41 percent in 1986. The number of jobless will gradually increase from 8.6 million this year to 8.9 million in 1986. That does not take into account the numbers of displaced workers now estimated at just over 2 million.

In the last five years, 5.1 million workers had lost their jobs due to cut-backs or closings. Of this total, 3.1 million did manage to find jobs. However, it was a new line of work and reduced pay for 900,000 of them.

## 1.40 HOUSING AND AUTOMOBILES

### 1.41 HOUSING

(Table 1.41 on page 15)

The forecast for housing has been reduced somewhat for this and the next two years. For instance, single-family housing starts are now forecast as amounting to .988 million next year as opposed to .991 million in the last Survey. (See Table 1.41.)

The reason for the adjustment:

1. October figures for building houses were lower than expected here.
2. There has been a slight general downward revision of the economic activity for 1985 and 1986.

The prediction for housing activity in terms of the general trend is

## TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | |
| Population | mil. | 223.9 | 235.8 | 236.7 | 237.8 | 238.9 | 237.3 | 1.3 |
| Civilian labor force | mil. | 111.6 | 112.6 | 113.6 | 113.8 | 114.5 | 113.6 | 1.9 |
| Employment | mil. | 100.8 | 103.7 | 105.1 | 105.3 | 105.9 | 105.0 | 4.2 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | -- |
| Nonagriculture | mil. | 97.5 | 100.4 | 101.7 | 101.9 | 102.5 | 101.6 | 4.2 |
| Unemployment rate | % | 9.58 | 7.87 | 7.48 | 7.46 | 7.48 | 7.57 | -21.1 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Population | mil. | 237.3 | 239.8 | 240.9 | 242.3 | 243.7 | 241.6 | 1.8 |
| Civilian labor force | mil. | 113.6 | 115.5 | 115.8 | 116.9 | 117.8 | 116.4 | 2.4 |
| Employment | mil. | 105.0 | 106.9 | 107.2 | 108.1 | 108.9 | 107.7 | 2.6 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | -- |
| Nonagriculture | mil. | 101.6 | 103.5 | 103.8 | 104.7 | 105.5 | 104.3 | 2.6 |
| Unemployment rate | % | 7.57 | 7.46 | 7.42 | 7.49 | 7.56 | 7.48 | -1.1 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Population | mil. | 241.6 | 243.5 | 244.1 | 245.0 | 245.8 | 244.6 | 1.2 |
| Civilian labor force | mil. | 116.4 | 118.3 | 119.1 | 120.0 | 121.1 | 119.6 | 2.7 |
| Employment | mil. | 107.7 | 109.2 | 110.2 | 111.3 | 112.4 | 110.7 | 2.8 |
| Agriculture | mil. | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | -- |
| Nonagriculture | mil. | 104.3 | 105.8 | 106.8 | 107.9 | 108.0 | 107.3 | 2.8 |
| Unemployment rate | % | 7.48 | 7.66 | 7.51 | 7.28 | 7.17 | 7.41 | -.9 |

*Historical data (1) % change over previous year

the same: The market will remain weak over the next two years as they represent a downward phase of the cyclical housing industry. Do not look to the start of an upward trend before late 1986. Also, the high prices of homes and relatively high mortgage rates continue to freeze many thousands of individuals and families out of the housing market.

KEDI shares the view of those such as Mark Riedy of the Mortgage Bankers Association of America that look to mortgage rates to fall below 13 percent by early summer or even in the spring. Actually, KEDI is a bit more optimistic as such rates are seen as likely here as early as February.

In October, housing starts were off by 9.8 percent from the prior month and off 9.3 percent from the year-earlier figure. Starts were at an adjusted 1.52 million level. Building permits were down 2.2 percent from the month before and 14.7 percent from the previous October.

Back in 1968, a new house could be had for a median price of $24,700 and in 1978 it was $55,700 while it was $80,000 just last month. The average price of an "upscale home" (one with 1½-2 baths, and 1,600 square feet in a desirable area) was at $100,600 with prices ranging from a low of $62,000 in Hot Springs, Ark to $290,000 in Darien, Conn.

In KEDI's long-term outlook for housing starts, the trough of the cycle will be reached in 1986. From that year on, the number of housing starts will keep increasing until the expected peak in 1988:

| | HOUSING STARTS (mil. units) |
|---|---|
| 1983 | 1.7 |
| 1984 | 1.7 |
| 1985 | 1.6 |
| 1986 | 1.6 |
| 1987 | 1.8 |
| 1988 | 2.0 |
| 1989 | 1.9 |
| 1990 | 1.8 |

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## TABLE 1.41 HOUSING

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 * | 2 * | 3 | 4 | | |
| Single-family housing starts | mil. | 1.068 | 1.278 | 1.138 | .995 | .942 | 1.086 | 1.7 |
| Multifamily housing starts | mil. | .635 | .690 | .768 | .661 | .584 | .676 | 6.4 |
| Mobile home shipments | mil. | .296 | .298 | .294 | .310 | .301 | .301 | 1.6 |
| Permits authorized | mil. | 1.594 | 1.809 | 1.743 | 1.497 | 1.387 | 1.609 | .9 |
| 1-family unit price, new** | tho.$ | 89.8 | 94.7 | 96.5 | 98.5 | 98.9 | 97.2 | 8.2 |
| 1-family unit price,existing** | tho.$ | 82.5 | 86.5 | 88.7 | 92.4 | 93.1 | 90.2 | 9.3 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Single-family housing starts | mil. | 1.086 | .968 | 1.018 | 1.062 | .902 | .988 | -10.1 |
| Multifamily housing starts | mil. | .676 | .594 | .643 | .689 | .593 | .630 | -6.8 |
| Mobile home shipments | mil. | .301 | .275 | .280 | .276 | .251 | .271 | -10.1 |
| Permits authorized | mil. | 1.609 | 1.365 | 1.489 | 1.512 | 1.398 | 1.441 | -10.4 |
| 1-family unit price, new** | tho.$ | 97.2 | 100.8 | 101.6 | 103.0 | 102.7 | 102.0 | 5.0 |
| 1-family unit price,existing** | tho.$ | 90.2 | 93.1 | 93.7 | 94.8 | 97.2 | 94.7 | 5.0 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % (1) |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | |
| Single-family housing starts | mil. | .988 | .886 | .962 | 1.047 | .990 | .971 | -1.7 |
| Multifmaily housing starts | mil. | .630 | .580 | .593 | .614 | .594 | .595 | -5.5 |
| Mobile home shipments | mil. | .271 | .230 | .234 | .258 | .279 | .250 | -7.7 |
| Permits authorized | mil. | 1.441 | 1.376 | 1.464 | 1.609 | 1.648 | 1.524 | 5.8 |
| 1-family unit price, new** | tho.$ | 102.0 | 102.3 | 103.8 | 107.6 | 112.3 | 106.5 | 4.4 |
| 1-family unit price,existing** | tho.$ | 94.7 | 98.5 | 99.4 | 99.8 | 102.1 | 99.9 | 5.5 |

*Historical data (1) % change over previous year **Seasonally not adjusted

## 1.42 AUTOMOBILES

(Table 1.42 on page 17)

The forecast for sales and other indicators remains essentially the same with fractional adjustments. Look to total sales of cars of 10.5 million this year with domestic sales reaching 8.1 million or 19.1 percent more than in 1983. In 1985 such sales are forecast at 7.7 million or down 5.5 percent from the 1984 total.

Data for the first 10 days of November showed a decline of 4.7 percent compared to a year earlier, and the mid-total had renewed zest as such sales had zoomed ahead by 28.8 percent. Chrysler had the largest gain in the year-to-year figure as they reported sales up a whopping 62.2 percent from mid-Nov., 1983. To be fair, last year's figures were poor, and the comparison exaggerates. Part of the big jump for Chrysler came from a loss of production due to a short-strike at a major plant last November. Ford sales were up by 50 percent, and GM sales increased over 16 percent between mid-November 1983 and 1984.

For the year up to early November, sales had improved by 19 percent over the like period of 1983. From January through the first days of November, 6.98 million U.S. autos had been sold.

The forecast data for passenger cars for 1985-86 was slightly increased, mainly due to the downward revision of data for interest rates on auto loans in that period. Still the essential general trend remains the same: In 1985 sales will be declining and will continue to do so until 1986. After that, a new automobile cycle is anticipated.

There is no change in the forecast for light-duty trucks. Sales are calculated here to total 3 million this year for a 20 percent gain over 1983. Look to such sales to reach close to 2.8 million in 1985 for a decline of 6.7 percent. They will edge upward some in 1986. See Table 1.42.

## TABLE 1.42 AUTOMOBILES
(Unless otherwise stated, quarterly data
are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 * | 2 * | 3 | 4 | | (1) |
| Passenger cars: | | | | | | | | |
| Total sales | mil. | 9.2 | 10.6 | 10.6 | 10.5 | 10.3 | 10.5 | 14.1 |
| Domestic | mil. | 6.8 | 8.3 | 8.2 | 8.0 | 7.8 | 8.1 | 19.1 |
| Imported | mil. | 2.4 | 2.3 | 2.4 | 2.4 | 2.4 | 2.4 | 1.0 |
| Dealers inventories,n.s.a. | mil. | 1.4 | 1.6 | 1.3 | 1.2 | 1.3 | 1.3 | -7.1 |
| Factory shipments | mil. | 6.7 | 8.3 | 8.0 | 7.9 | 7.9 | 8.0 | 19.7 |
| Light-duty trucks: | | | | | | | | |
| Total sales | mil. | 2.5 | 3.0 | 3.2 | 3.0 | 2.8 | 3.0 | 20.0 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Passenger cars: | | | | | | | | |
| Total sales | mil. | 10.5 | 10.3 | 10.2 | 10.0 | 9.8 | 10.1 | -4.0 |
| Domestic | mil. | 8.1 | 7.9 | 7.8 | 7.5 | 7.4 | 7.7 | -5.5 |
| Imported | mil. | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | .5 |
| Dealers inventories,n.s.a. | mil. | 1.3 | 1.6 | 1.7 | 1.9 | 1.7 | 1.7 | 30.8 |
| Factory shipments | mil. | 8.0 | 7.6 | 7.7 | 7.8 | 7.7 | 7.7 | -3.7 |
| Light-duty trucks: | | | | | | | | |
| Total sales | mil. | 3.0 | 2.5 | 2.8 | 3.0 | 2.8 | 2.8 | -6.7 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Passenger cars: | | | | | | | | |
| Total sales | mil. | 10.1 | 9.5 | 9.7 | 9.8 | 10.0 | 9.8 | -3.5 |
| Domestic | mil. | 7.7 | 7.1 | 7.4 | 7.3 | 7.4 | 7.4 | -3.9 |
| Imported | mil. | 2.5 | 2.4 | 2.3 | 2.5 | 2.5 | 2.4 | -.4 |
| Dealers inventories,n.s.a. | mil. | 1.7 | 1.9 | 1.8 | 1.7 | 1.3 | 1.3 | -23.5 |
| Factory shipments | mil. | 7.7 | 7.3 | 7.4 | 7.2 | 7.4 | 7.3 | -4.9 |
| Light-duty trucks: | | | | | | | | |
| Total sales | mil. | 2.8 | 2.7 | 2.8 | 2.9 | 3.1 | 2.9 | 2.7 |

*Historical data (1) % change over previous year

## 1.50 BUDGETS

(Table 1.50 on page 19)

KEDI maintains its forecast that federal budget deficits will be heading downward beyond next year instead of going up. It should be noted that the $205 billion red ink total for fiscal 1986 (starting October 1, 1985) and the following years, widely publicized in the press, was an informal estimate of the Office of Budget Management assuming that no major changes would take place in the Budget.

THERE IS NO BUDGET UNTIL THERE IS A BUDGET. All is in the negotiations phase currently. President Reagan would like to make cuts, many painful, amounting to about $40 billion. He would like to see the deficit reduced to closer to $100 billion by 1988 with many programs, except Social Security, being sharply trimmed. If all cuts were realized, (hardly likely given some political realities of this nation) the deficit would be cut to around $165 billion for the next fiscal year. No one can accurately predict what will happen in Congress. However, it can be assumed that some of the cuts, perhaps a majority of them, would pass. That would bring the deficit figure toward the range first forecast by KEDI in February of this year.

The current budget gives around 297 billion dollars to the Pentagon, about $260 billion for Social Security and Medicare, and $125 billion in federal debt payments. That leaves around $200 billion for the other budgeted items. In the current version of the 1986 budget, these "other items" have been sought in the range of approximately $240 billion. A $40 billion cut would mean a reduction by approximately one sixth. Such a deep cut will be hardly possible unless some reductions in the defense budget are also realized.

Compared to the previous forecast, the main revision here is in corporate profit taxes for the federal and state and local governments. Forecast data has been lowered mainly due to the change in the outlook for corporate profits, and, in 1986, due to the anticipated corporate profits tax adjustments. Correspondingly, the projection for the federal budget deficit has been increased and that of the surplus of state and local governments budgets has been decreased.

## TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS

(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984<br>1* | <br>2* | <br>3 | <br>4 | 1984 | %<br>(1) |
|---|---|---|---|---|---|---|---|---|
| **Federal government:** | | | | | | | | |
| Income taxes | bil.$ | 295.2 | 301.6 | 310.7 | 319.7 | 326.5 | 314.6 | 6.6 |
| Corpor.profits tax accruals | bil.$ | 59.8 | 73.0 | 75.6 | 66.4 | 66.4 | 70.6 | 18.5 |
| Surplus/deficit | bil.$ | -178.6 | -161.3 | -163.7 | -176.9 | -182.6 | -171.1 | -4.2 |
| **State and local governments:** | | | | | | | | |
| Income taxes | bil.$ | 109.0 | 116.7 | 119.6 | 121.0 | 123.7 | 120.3 | 10.3 |
| Corporate profits tax accruals | bil.$ | 16.0 | 19.7 | 20.2 | 18.0 | 18.9 | 19.2 | 20.0 |
| Surplus/deficit | bil.$ | 44.1 | 53.9 | 54.5 | 54.8 | 56.5 | 54.9 | 24.5 |

| Indicator | Unit | 1984 | 1985<br>1 | <br>2 | <br>3 | <br>4 | 1985 | %<br>(1) |
|---|---|---|---|---|---|---|---|---|
| **Federal government:** | | | | | | | | |
| Income taxes | bil.$ | 314.6 | 330.7 | 338.5 | 344.2 | 350.7 | 341.0 | 8.4 |
| Corporate profits tax accruals | bil.$ | 70.6 | 68.5 | 70.1 | 71.2 | 73.8 | 70.9 | .4 |
| Surplus/deficit | bil.$ | -171.1 | -176.5 | -178.2 | -172.4 | -164.1 | -172.6 | .8 |
| **State and local governments:** | | | | | | | | |
| Income taxes | bil.$ | 120.3 | 126.3 | 128.1 | 131.2 | 133.6 | 129.8 | 7.9 |
| Corporate profits tax accruals | bil.$ | 19.2 | 20.5 | 21.4 | 23.2 | 24.9 | 22.5 | 17.2 |
| Surplus/deficit | bil.$ | 54.9 | 58.7 | 60.2 | 63.4 | 65.9 | 62.1 | 13.0 |

| Indicator | Unit | 1985 | 1986<br>1 | <br>2 | <br>3 | <br>4 | 1986 | %<br>(1) |
|---|---|---|---|---|---|---|---|---|
| **Federal government:** | | | | | | | | |
| Income taxes | bil.$ | 341.0 | 358.5 | 361.2 | 367.8 | 378.4 | 366.5 | 7.5 |
| Corporate profits tax accruals | bil.$ | 70.9 | 72.6 | 71.5 | 75.3 | 77.8 | 74.3 | 4.8 |
| Surplus/deficit | bil.$ | -172.6 | -160.2 | -162.3 | -155.6 | -150.1 | -157.1 | -9.0 |
| **State and local governments:** | | | | | | | | |
| Income taxes | bil.$ | 129.8 | 136.2 | 138.5 | 143.1 | 148.6 | 141.6 | 9.1 |
| Corporate profits tax accruals | bil.$ | 22.5 | 25.8 | 26.1 | 27.8 | 29.1 | 27.7 | 20.9 |
| Surplus/deficit | bil.$ | 62.1 | 66.4 | 67.8 | 70.9 | 73.5 | 69.7 | 12.2 |

*Historical data (1) % change over previous year

## 1.60 INCOME

(Table 1.60 on page 21)

The major change in this forecast pertains to the downward revision of forecast data for corporate profits. The unexpected drop in the third quarter due mainly to lowered activity in the auto industry, mines, construction, machinery, and chemical industries led to this revision. It reduces the forecast of after-tax profits from 18.9 percent forecast in the last Survey to 14.4 currently. In 1985 such profits are now projected to be 4.6 percent higher than in 1984 whereas in the November issue the percentage was 8.1. The 1986 outlook is fractionally adjusted.

The downward revision of corporate after-tax profits has negatively affected the projection of corporate profits tax accruals (See Section 1.50, Budgets) and the forecast data for business fixed investment (see Sections 1.1 Real Growth, and 1.22 Nominal GNP). The positive feature related to this is a slight rise in personal saving this year with the gain being stronger during the next two years. For instance, such saving had been forecast as gaining 1.4 percent in 1986 over 1985, and that change is now seen as being an increase of 2.5 percent.

Forecast data for average weekly earnings has been fractionally adjusted with the gain this year over last forecast at 3.9 percent as opposed to 4.0 percent in prior issues. Look to average weekly earnings of $381 in 1985 for a gain of 3.5 percent over the current year, and expect the change to be closer to 6 percent in the following year.

Average weekly earnings edged down by 0.9 percent in October after adjustment for inflation and seasonal factors. Earnings had gone up 0.7 percent in September after declining 1.1 percent in the prior month. Before any adjustments, average weekly earnings were at $295.54 in October.

The overall picture of income and components for the rest of the year and the next two years does not show any recession. There is a slowdown coming in 1985 and the first part of 1986 in all indicators. Still, personal income gaining 7.8 percent next year and 8.2 percent in 1986 is quite respectable.

### TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 * | 2 * | 3 | 4 | | (1) |
| Personal income | bil.$ | 2744.2 | 2920.5 | 2984.6 | 3046.7 | 3077.5 | 3007.3 | 9.6 |
| Personal disposable income | bil.$ | 2340.1 | 2502.2 | 2554.3 | 2606.1 | 2627.3 | 2572.5 | 9.9 |
| Compensation of employees | bil.$ | 1984.9 | 2113.4 | 2159.2 | 2191.9 | 2267.4 | 2183.0 | 10.0 |
| Corporate after tax profits | bil.$ | 127.4 | 150.6 | 150.2 | 139.3 | 142.7 | 145.7 | 14.4 |
| Personal saving | bil.$ | 118.1 | 152.5 | 146.8 | 164.3 | 162.7 | 156.6 | 32.6 |
| Average weekly earnings | $ | 354.5 | 366.2 | 370.1 | 368.4 | 368.1 | 368.2 | 3.9 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Personal income | bil.$ | 3007.3 | 3134.6 | 3222.2 | 3286.4 | 3326.4 | 3242.4 | 7.8 |
| Personal disposable income | bil.$ | 2572.5 | 2677.6 | 2755.6 | 2811.0 | 2842.1 | 2771.6 | 7.7 |
| Compensation of employees | bil.$ | 2183.0 | 2318.1 | 2362.6 | 2384.1 | 2392.5 | 2364.3 | 8.3 |
| Corporate after tax profits | bil.$ | 145.7 | 144.4 | 149.6 | 155.2 | 160.3 | 152.4 | 4.6 |
| Personal saving | bil.$ | 156.6 | 161.4 | 160.9 | 162.3 | 161.8 | 161.6 | 3.2 |
| Average weekly earnings | $ | 368.2 | 373.0 | 378.1 | 383.9 | 389.0 | 381.0 | 3.5 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Personal income | bil.$ | 3242.4 | 3404.8 | 3477.0 | 3550.4 | 3601.8 | 3508.5 | 8.2 |
| Personal disposable income | bil.$ | 2771.6 | 2910.1 | 2977.3 | 3039.5 | 3074.8 | 3000.4 | 8.3 |
| Compensation of employees | bil.$ | 2364.3 | 2457.6 | 2488.2 | 2576.3 | 2622.5 | 2536.2 | 7.3 |
| Corporate after tax profits | bil.$ | 152.4 | 160.1 | 161.2 | 168.9 | 178.4 | 167.2 | 9.7 |
| Personal saving | bil.$ | 161.6 | 160.9 | 163.4 | 167.8 | 170.5 | 165.7 | 2.5 |
| Average weekly earnings | $ | 381.0 | 394.2 | 398.6 | 406.2 | 416.1 | 403.8 | 5.9 |

*Historical data (1) % change over previous year

## 1.70 MONEY AND CREDIT

(Table 1.70 on page 23)

KEDI maintains its assumption expressed in the November issue (page 22) that the Fed's Open Market Committee voted November 7 to ease the money and credit conditions. This easing was confirmed by Paul Volcker on November 30. KEDI shares his view of the economic slowdown being an expected adjustment in the broad expansion picture that gives the central bank more flexibility to lower interest rates. However, the forecast at this Institute points to a moderate easing of money and credit conditions--not a drastic change.

At the October meeting of the Federal Reserve Open Market Committee, the forecast made there for the growth of M1 was at an annual rate of 6 percent and the forecast for M2 was at 7½ percent. It is assumed here that the expectations have not changed. The forecast by KEDI indicates a quarter or two of relative ease in the Fed's policy followed by tightening in the second quarter of 1985.

KEDI assumes that any relaxing will not go much beyond the situation that existed at the beginning of this year for the following reasons:

1. The demand for consumer credit is still very strong and too much relaxing would lead to an explosion of consumer loans with the necessary inflationary results.

2. The economy is not at a threshold of recession, and the recent flattening of the level of commercial loans is seen as temporary. Look to such loans to start going up in the first quarter of 1985 but at a pace that will be moderate compared to the exorbitant growth of this year.

3. Any substantial loosening of monetary and credit conditions would result in very negative consequences starting with a decline in the international value of the dollar, higher export prices, slowing of the inflow of foreign capital, and a renewal of strong inflationary pressures. The Fed has to be well aware of such possible consequences and KEDI considers actions taken will be moderate.

### TABLE 1.70 MONEY AND CREDIT

(data for "Currency and demand deposits, M1", and "Time deposits, adjusted,M2" are averages of daily figures;other data are end of period figures)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3 | 4 | | (1) |
| Currency and demand deposits,M1 | bil.$ | 509.0 | 532.7 | 540.8 | 546.4 | 554.5 | 543.6 | 6.8 |
| Time deposits, adjusted, M2 | bil.$ | 2115.9 | 2217.3 | 2257.7 | 2289.6 | 2368.4 | 2283.4 | 7.9 |
| Consumer instal. credit | bil.$ | 387.9 | 402.5 | 427.6 | 447.5 | 454.9 | 454.9 | 17.9 |
| Commerc. & indus. loans at banks | bil.$ | 413.0 | 428.2 | 456.7 | 465.9 | 471.3 | 471.3 | 14.1 |
| Large denomination time dep. | bil.$ | 325.9 | 340.7 | 379.1 | 392.3 | 405.9 | 405.9 | 24.5 |
| Mortgages at S&L Assns. | bil.$ | 493.4 | 502.1 | 526.8 | 533.0 | 537.8 | 537.8 | 9.0 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Currency and demand deposits,M1 | bil.$ | 534.6 | 564.2 | 570.1 | 572.6 | 576.3 | 570.8 | 5.0 |
| Time deposits, adjusted, M2 | bil.$ | 2283.4 | 2411.5 | 2469.3 | 2515.8 | 2558.2 | 2488.7 | 9.0 |
| Consumer instal. credit | bil.$ | 454.9 | 458.8 | 461.3 | 464.6 | 475.2 | 475.2 | 4.5 |
| Commerc. & indus. loans at banks | bil.$ | 471.3 | 480.6 | 491.4 | 493.8 | 495.9 | 495.9 | 4.9 |
| Large denomination time dep. | bil.$ | 405.9 | 408.7 | 411.3 | 416.5 | 420.3 | 420.3 | 3.3 |
| Mortgages at S&L Assns. | bil.$ | 537.8 | 541.2 | 549.1 | 552.6 | 555.4 | 555.4 | 2.9 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Currency and demand deposits,M1 | bil.$ | 570.8 | 584.2 | 591.3 | 605.4 | 617.2 | 599.5 | 5.0 |
| Time deposits, adjusted, M2 | bil.$ | 2488.7 | 2637.8 | 2699.5 | 2765.4 | 2836.4 | 2734.8 | 9.9 |
| Consumer instal. credit | bil.$ | 475.2 | 477.5 | 479.9 | 482.3 | 487.2 | 487.2 | 2.5 |
| Commerc. & indus. loans at banks | bil.$ | 495.9 | 498.3 | 502.4 | 507.3 | 513.6 | 513.6 | 3.6 |
| Large denomination time dep. | bil.$ | 420.3 | 425.8 | 431.4 | 436.5 | 445.7 | 445.7 | 6.0 |
| Mortgages at S&L Assns. | bil.$ | 555.4 | 556.8 | 558.3 | 564.9 | 571.8 | 571.8 | 3.0 |

*Historical data (1) % change over previous year

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

In this forecast interest rates and yields have been slightly lowered when compared to the previous forecast. For instance, the yield on three month Treasury bills is now forecast at 8.31 for the first quarter of 1985 whereas it was at 8.74 in the previous forecast. It is seen as gradually increasing during 1985 to an average of 10.14 in the last quarter.

KEDI shares the view of the majority of forecasters that the recent credit easing by the Fed laid enough groundwork for further, moderate expansion of the economy. There will still be some declines but not of the magnitude of the October-November period.

This Institute agrees with Mickey Levy of the Fidelity Bank in Philadelphia in interpreting the Fed's move as modest. Irwin L. Kellner of Manufacturers Hanover Trust Co. predicted a rise of one or two points in short-term rates by next spring with the economy picking up some through the next quarter. That view is shared here. However, KEDI does not share the opinion of David Alan C. Lerner of Bankers Trust Co. that interest rates will move up with the federal funds rate rising to about 11 percent by the middle of next year. That is seen as being too high. Expect the rate to be under 10 percent. A forecast of four rates for the end of this year and the middle of next year is presented by KEDI:

| | End of Dec., 1984 | Middle of 1985 |
|---|---|---|
| Federal funds rate | 9.82 | 9.53 |
| Three month Treasury bills rate | 8.14 | 8.87 |
| Prime rate | 10.75 | 10.92 |
| Conventional mortgage rate | 13.36 | 13.64 |

The stock market will remain strong in 1985 with some sluggishness anticipated near the end of that year and a rebound in 1986. Look to the Dow Jones Average to be in the 1,150 to 1,300 range during 1985.

### TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

| Indicator | Unit | 1983* | 1984 | | | | 1984 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 * | 2 * | 3 | 4 | | (1) |
| Treasury bills (3 mo yield) | % | 8.61 | 9.17 | 9.81 | 10.32 | 8.59 | 9.47 | 10.0 |
| Prime rate | % | 10.70 | 11.08 | 12.31 | 13.00 | 11.32 | 11.93 | 11.5 |
| Conventional mortgage rate | % | 13.43 | 13.57 | 13.98 | 14.45 | 13.65 | 13.91 | 3.6 |
| Aaa corporate bonds rate | % | 12.04 | 12.28 | 12.97 | 12.99 | 12.11 | 12.59 | 4.5 |
| 20 years Govt. bonds yield | % | 11.34 | 12.16 | 12.68 | 12.83 | 12.18 | 12.46 | 9.5 |
| Standard & Poor's 500 Average | 1941-43 =100 | 160.41 | 160.50 | 155.76 | 160.54 | 163.21 | 160.00 | -.3 |

| Indicator | Unit | 1984 | 1985 | | | | 1985 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Treasury bills (3 mo yield) | % | 9.47 | 8.31 | 8.45 | 9.10 | 10.14 | 9.00 | -.5 |
| Prime rate | % | 11.93 | 10.52 | 10.74 | 11.06 | 11.23 | 10.89 | -8.7 |
| Conventional mortgage rate | % | 13.91 | 13.28 | 12.23 | 13.51 | 13.72 | 13.44 | -3.4 |
| Aaa corporate bonds rate | % | 12.59 | 11.53 | 11.06 | 11.32 | 11.55 | 11.37 | -9.7 |
| 20 years Govt. bonds yield | % | 12.46 | 11.80 | 11.24 | 11.06 | 11.13 | 11.31 | -9.2 |
| Standard & Poor's 500 Average | 1941-43 =100 | 160.00 | 164.17 | 162.59 | 159.78 | 158.43 | 161.24 | .8 |

| Indicator | Unit | 1985 | 1986 | | | | 1986 | % |
|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | (1) |
| Treasury bills (3 mo yield) | % | 9.00 | 10.81 | 10.46 | 9.20 | 8.16 | 9.66 | 7.3 |
| Prime rate | % | 10.89 | 11.75 | 11.70 | 10.91 | 10.26 | 11.18 | 2.7 |
| Conventional mortgage rate | % | 13.44 | 13.90 | 13.59 | 13.10 | 12.65 | 13.31 | -1.0 |
| Aaa corporate bonds rate | % | 11.37 | 12.24 | 12.31 | 11.72 | 11.19 | 11.87 | 4.4 |
| 20 years Govt. bonds yield | % | 11.31 | 11.48 | 11.95 | 11.74 | 11.40 | 11.64 | 2.9 |
| Standard & Poor's 500 Average | 1941-43 =100 | 161.24 | 157.51 | 150.46 | 151.28 | 158.65 | 154.48 | -4.2 |

*Historical data (1) % change over previous year

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

This December 1984 issue continues in the description of relationships between the Kent Model's Aggregative Division and the Financial Division.

The main link that connects the Aggregative and the Financial Divisions of the Model is represented by the SAVING AND INVESTMENT SECTION (S-I Section.)

Figure 4. on the following page shows the way how the S-I Section connects both Divisions.

In the S-I Section data generated in the Aggregative Division are broken down into savings and investments data of these subsectors:

HOUSEHOLDS
NONFINANCIAL BUSINESS
FEDERAL GOVERNMENT
STATE AND LOCAL GOVERNMENTS
FINANCE
REST OF THE WORLD
STATISTICAL DISCREPANCIES

Such breakdown yields data that are consistent with the Aggregative Division's data (The U.S. Department of Commerce National Income and Product data on Savings and Investments of Subsectors.)

In the S-I Section, these data are complemented by data on Savings and Investments as used in the Flow of Funds Tables (The Board of Governors of the Federal Reserve System Savings and Investments of Subsectors.)

Thus in the S-I Section National Income and Product data are merged with those of the Flow of Funds data, through savings and investments of subsectors, into a consistent system.

Calculations in the S-I Section yield then data on Net Savings of subsectors that are identical with corresponding data on Net Financial Investments of financial sectors in the Financial Division.

(CONTINUED IN THE FEBRUARY 1985 ISSUE)

## RELATIONSHIPS - THE AGGREGATIVE AND THE FINANCIAL DIVISIONS OF THE MODEL

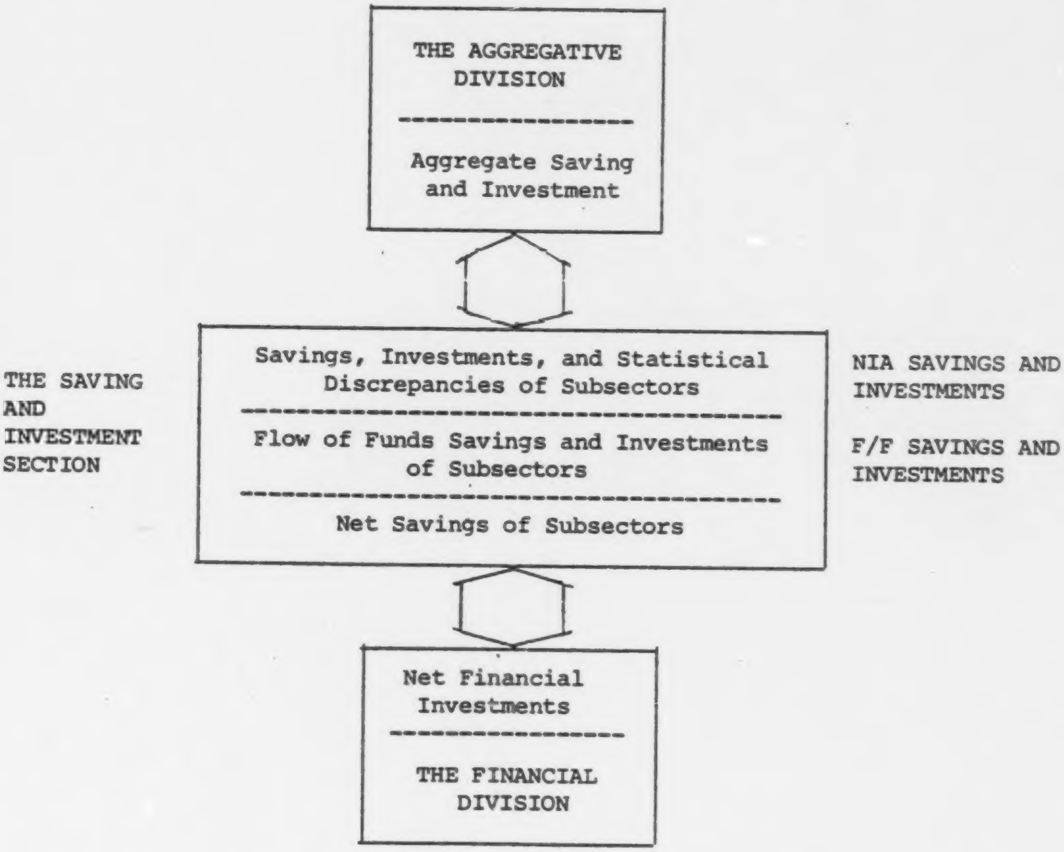
THE AGGREGATIVE DIVISION
Aggregate Saving and Investment
THE SAVING AND INVESTMENT SECTION
Savings, Investments, and Statistical Discrepancies of Subsectors
Flow of Funds Savings and Investments of Subsectors
Net Savings of Subsectors
NIA SAVINGS AND INVESTMENTS
F/F SAVINGS AND INVESTMENTS
Net Financial Investments
THE FINANCIAL DIVISION

Figure 4.

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Index of Industrial Production in 1983 has been selected for comparison. The actual figure is in Survey of Current Business (monthly, U.S. Department of Commerce, Washington, D.C.), Vol.64, No.6, June 1984, Blue pages. Forecast data are in Business Forecasts 1983 (Federal Reserve Bank of Richmond, Virginia, February 1983.) The following table shows the predictions of forecasters and deviations of forecast data.

### TABLE 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Index of Industrial Production, 1967=100)

Actual figure: 147.7

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy (%) |
|---|---|---|---|
| National Securities and Research Corporation, pg 9 | 11/18/82 | 147.0 | -.1 |
| Economic Department, U.S. Trust Company of New York, pg 10 | 12/82 | 140.8 | -4.7 |
| J.A. Livingston, pg 15 | 12/26/82 | 142.0 | -3.9 |
| First Interstate Bank of Californis, pg 16 | 10/82 | 144.7 | -2.0 |
| Georgia State University, pg 17 | 11/82 | 141.6 | -4.1 |
| Armco, pg 19 | 11/3/82 | 140.5 | -4.9 |
| Chemical Bank, pg 20 | 11/9/82 | 141.6 | -4.1 |
| American Statistical Association and National Bureau of Economic Research, pg 21 | 12/82 | 143.0 | -3.2 |
| Manufacturers Hanover Trust Company, pg 22 | 12/82 | 142.5 | -3.5 |
| UCLA Business Forecasting Project, pg 23 | 12/82 | 140.0 | -5.2 |
| Metropolitan Life Insurance Company, pg 24 | 12/1/82 | 142.4 | -3.6 |
| The Fidelity Bank, pg 25 | 12/8/82 | 142.7 | -3.4 |
| Citibank Economic Forecasting Service, pg 26 | 12/9/82 | 144.0 | -2.5 |
| Alex A. Burkholder, pg 27 | 12/15/82 | 140.0 | -5.2 |
| Data Resources, Inc., pg 28 | 12/24/82 | 141.4 | -4.3 |
| Chase Econometrics, pg 29 | 12/29/82 | 141.2 | -4.4 |
| Kent Economic and Development Institute,pg 30 | 1/1/83 | 143.2 | -3.0 |
| Harris Bank, pg 32 | 1/5/83 | 142.0 | -3.9 |
| Standard & Poor's Corporation, pg 34 | 1/6/83 | 142.4 | -3.6 |
| Morgan Guaranty Trust Company of New York,pg 35 | 1/7/83 | 142.0 | -3.9 |

## 4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

### TABLE 3.0 HISTORICAL DATA SOURCES

| Table No. | Data Series | Source |
|---|---|---|
| 1.11 SELECTED INDICATORS OF REAL GROWTH | Gross national product, 1972$ | SCB, Table 1.2 |
| | Index of industrial production | IIP, page 2 |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 REAL GNP | Gross national product, 1972$ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 PRICES | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: | |
| | GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Gross private dom. investment | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| 1.22 NOMINAL GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| 1.30 EMPLOYMENT AND LABOR | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employed | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page)

0
10
20
30
40
50
60
70
80
90
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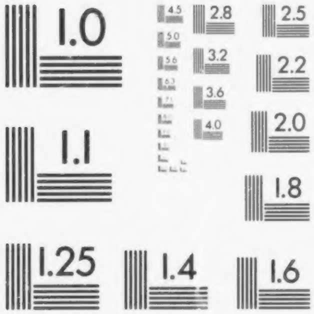
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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

## JANUARY 1, 1985

Prepared by the staff of
**Kent Economic and Development Institute, Inc.**
P.O. Box 99
Tallmadge, Ohio 44278
(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

Diane L. Lewis
Editor and Assistant Writer

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## CONTENTS

Page

### 0.00 Introduction

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

### 1.00 Detailed Forecasts

1.10 Real Growth 6
1.20 Prices and Nominal GNP
  1.21 Prices 8
  1.22 Nominal GNP 10
  1.23 Detailed Nominal GNP 12
1.30 Employment and Labor 14
1.40 Housing and Automobiles
  1.41 Housing 16
  1.42 Automobiles 18
1.50 Budgets 20
1.60 Income 22
1.70 Money and Credit 24
1.80 Interest Rates, Yields and Securities Prices 26

**2.00 Historical Data Sources** 28

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.23 Detailed Nominal GNP 13
1.30 Employment and Labor 15
1.41 Housing 17
1.42 Automobiles 19
1.50 Budgets 21
1.60 Income 23
1.70 Money and Credit 25
1.80 Interest Rates, Yields, and Security Prices 27
2.00 Historical Data Sources 28

**SOURCES:**

U.S.Department of Commerce third estimates of 1984:3 National Income and Product data, December 20, 1984.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, December 1984.

The lastest available data on prices, employment, industrial, and financial developments.

# 0:00 INTRODUCTION

## 0:01 EXECUTIVE SUMMARY

### Highlights

- Moderate growth in 1985--first half taking the lead.
- Slower growth at a pace of close to 2.4% in 1986.
- More vigorous growth by early 1987.

### Real Growth

Expect most of the growth from the service sector. In goods-producing sector, electronics, plastics, chemicals, electrical machinery, and defense will be leaders.

### Prices

Look to modest inflation in 1985 of 3.5% and a still tolerable rate of change in the CPI of 5.2% in 1986.

### Employment & Labor

The employment picture is seen as improving by roughly 2.5% in 1985-1986--especially in white-collar service industries. Rather tiny declines in the jobless rate are forecast.

### Housing

1985 housing starts same as 1983: 1.62 million. Anticipate 1986 to be a rerun of 1985.

### Automobiles

Although total sales will be lower in 1985 than 1984, nearly 10 million cars sold will be a respectable number with 1986 edging down a bit more.

### Budgets

Anticipate the deficit growing slightly this year and moving down a bit in 1986.

### Income

Look to disposable income to gain by close to 8% in 1985. Corporate profits seen about 5% higher in 1985.

### Money & Credit

Fed policy will not change much. Credit markets more balanced.

### Interest Rates, Yields & Security Prices

Look to the trough being reached before end of 2nd quarter. Expect the Dow Jones Industrials within the 1150-1300 range.

## 0.02 OVERVIEW

During 1985, expect the economy to have continued merit with inflation staying on the low side, the dollar remaining strong, and the rate of unemployment edging downward a bit.

Factors that will contribute to the moderate nature of growth:

1. **Demand by consumers** is forecast as being less vigorous as they would have largely satisfied demand that had been unmet in 1981 and 1982. Also, additions to the number employed are forecast here as smaller than they were in either 1983 or 1984.
2. The pendulum of the **business investment cycle** is slowing. Expect the modernization of equipment to be continued at a pace that is reduced while large construction projects and road building wind down.
3. The record setting **accumulation of inventories** in 1984 which were in the neighborhood of a $30 billion rate had never been experienced in the post-World War II period and will not be repeated again. Hence, production is not going to outpace the sales by such a large margin with the consequence that production gains are forecast as being modest by comparison.
4. The cycles for **housing** and **autos** reached their peak in 1984. However, if the projected totals for 1985 are compared to 1983 and 1984, substantial gains are still seen. It is just that housing and autos are not going to be the stimulators that they were in 1984.
5. **Cycles have historically lasted around four years** on the average in the USA. So far, there has been two years of growth. To be average, there should be two more. (To be average is to be the best of the worst and the worst of the best.) KEDI looks to the present cycle to be somewhat longer than average. Political or economic history does repeat itself but rarely with exactness. Moderate growth forecast for 1985 is expected to accelerate to a more vigorous pace by early 1987. The outlook here shows greater expansion then and in 1988 when new housing and auto cycles begin.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

| Indicator | Unit | 1984 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Gross national product | bil.72$ | 1638.5 | 1728.9 | 1794.6 | 1882.5 |
| | % change | 6.8 | 2.4 | 3.8 | 4.9 |
| Index of industrial production | 1967=100 | 163.4 | 173.8 | 185.3 | 201.6 |
| | % change | 10.7 | 3.1 | 6.6 | 8.8 |
| Capacity utilization | % | 81.9 | 81.2 | 82.0 | 82.5 |
| | % change | 13.0 | -.9 | 1.0 | .6 |
| Umemployment rate | % | 7.52 | 7.27 | 6.96 | 6.70 |
| | % change | -21.5 | -.8 | -4.2 | -3.7 |
| Private housing starts | mil. units | 1.785 | 1.624 | 1.938 | 2.171 |
| | % change | 4.8 | -.6 | 19.2 | 11.2 |
| Car sales | mil. units | 10.3 | 9.7 | 10.2 | 10.8 |
| | % change | 11.4 | -2.0 | 5.2 | 5.9 |
| Implicit GNP price deflator | 1972=100 | 223.5 | 243.8 | 257.0 | 271.3 |
| | & change | 3.8 | 5.0 | 5.4 | 5.6 |
| Consumer price index | 1967=100 | 311.2 | 338.7 | 357.7 | 378.8 |
| | & change | 4.3 | 5.2 | 5.6 | 5.9 |
| Producer price index (finished goods) | 1967=100 | 289.0 | 317.8 | 339.1 | 362.2 |
| | % change | 1.3 | 6.1 | 6.7 | 6.8 |
| Federal deficit | bil. $ | -172.5 | -176.4 | -169.5 | -162.4 |
| | % change | -3.4 | -3.4 | -3.9 | -4.2 |
| Personal income | bil. $ | 3014.6 | 3497.8 | 3827.6 | 4256.3 |
| | % change | 9.9 | 7.4 | 9.4 | 11.2 |
| Prime rate | % | 11.92 | 11.19 | 10.27 | 9.25 |
| | % change | 11.1 | -3.7 | -8.2 | -8.9 |
| Mortgage rate | % | 13.88 | 13.47 | 12.38 | 11.20 |
| | %change | 4.0 | -1.6 | -8.1 | -9.5 |
| Currency plus demand deposits | bil. $ | 544.1 | 601.2 | 639.7 | 683.8 |
| | %change | 6.9 | 5.1 | 6.4 | 6.9 |
| Commercial and industrial loans | bil. $ | 470.2 | 514.2 | 532.7 | 563.6 |
| | %change | 13.7 | 3.9 | 3.6 | 5.8 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

1. In 1985, the **weighted price of oil** will be $27 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the January 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more sustainable level in 1987.

## TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unemploym't rate | Capac. util'n rate | Pvt. hous'g starts | Auto sales |
|---|---|---|---|---|---|---|
| **Unit** | $72 bil. | 1967=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| **1983*** | 1534.7 | 147.6 | 9.6 | 72.5 | 1.703 | 9.2 |
| **1984:1*** | 1610.9 | 159.8 | 7.9 | 80.7 | 1.968 | 10.6 |
| 2* | 1638.8 | 163.1 | 7.5 | 81.8 | 1.906 | 10.6 |
| 3* | 1645.2 | 165.6 | 7.5 | 82.6 | 1.664 | 10.0 |
| 4 | 1659.3 | 164.9 | 7.3 | 82.6 | 1.493 | 9.8 |
| YEAR | 1638.5 | 163.4 | 7.5 | 81.9 | 1.785 | 10.3 |
| % change from 83 | 6.8 | 10.7 | -21.5 | 13.0 | 4.8 | 11.4 |
| **1985:1** | 1672.2 | 166.5 | 7.2 | 82.3 | 1.542 | 9.9 |
| 2 | 1685.2 | 168.4 | 7.1 | 82.1 | 1.739 | 10.0 |
| 3 | 1695.1 | 169.3 | 7.2 | 81.9 | 1.763 | 9.8 |
| 4 | 1701.1 | 169.8 | 7.3 | 81.3 | 1.487 | 9.8 |
| YEAR | 1688.4 | 168.5 | 7.2 | 81.9 | 1.633 | 9.9 |
| % change from 84 | 3.0 | 3.1 | -4.1 | .0 | -8.5 | -4.1 |
| **1986:1** | 1708.8 | 168.3 | 7.4 | 80.9 | 1.524 | 9.5 |
| 2 | 1720.4 | 170.9 | 7.3 | 81.1 | 1.630 | 9.7 |
| 3 | 1735.3 | 175.8 | 7.3 | 81.3 | 1.679 | 9.7 |
| 4 | 1751.2 | 180.0 | 7.1 | 81.5 | 1.659 | 9.9 |
| YEAR | 1728.9 | 173.8 | 7.3 | 81.2 | 1.624 | 9.7 |
| % change from 85 | 2.4 | 3.1 | .8 | -.9 | -.6 | -2.0 |

*Historical data.

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

Although the forecast for the economy in general is good, the outlook by sectors shows a variety of growth patterns. The expected growth of 3% in 1985 is seen as coming mostly from the service sector. Look to a 4-5% growth in hotels, restaurants, fast food, medical, hospital, and education services. Goods-producing industries will not perform as well as services. Growth is seen as being in the 2% range in general but with great diversity within this category as can been seen here: **Mining.** Do not expect any significant improvements. There will be low levels of output in nonferrous ores, flat iron ore production with possible declines in the latter part of the year. Coal output is expected to show slight gains while oil production is seen as being fairly flat with possible decreases in the second part of the year. **Construction.** The forecast is generally good with private housing being somewhat lower than in 1984 (but higher than in 1983 or 1982). Anticipate some declines in nonresidential structures, especially business offices. **Primary metals.** Do not expect any significant changes during the year. **Food.** Look to solid and steady increase in output. **Rubber and Products.** The forecast shows fairly steady production with some declines in the last part of 1985. **Plastics.** Compared to 1984, anticipate substantial gains. **Chemicals.** Another year of prosperity. **Textiles.** Look to a leveling with some improvements in the second part of the year. **Machinery.** For nonelectrical machinery, stagnation is forecast with declines in farm machinery production. Expect a fairly good perfomance for electrical machinery as high demand for consumer durables will persist. **Lumber and Products.** Lumber and products are seen as stable with output just slightly above 1984. **Printing and Publishing.** No declines are forecast as compared to 1984. **Defense.** Significant further increases are seen throughout 1985. **Automobiles.** Look to a good performance but not as high as 1984. **Transportation.** Another good year for railroads and trucking but weak for airlines. **Trade.** There will be further increases in retail trade, but wholesale trade will be flat. **Finance.** While banking will have signficant increases, real estate will be at the same levels as in 1984.

TABLE 1.12

**REAL GNP**

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Total | Pers. cons. expend. | Gross pvt.dom. invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| **1983*** | 1534.7 | 1009.2 | 221.0 | 12.6 | 116.2 | 175.7 |
| **1984:1*** | 1610.9 | 1044.1 | 285.5 | -8.3 | 112.2 | 177.3 |
| 2* | 1638.8 | 1064.2 | 283.9 | -11.4 | 123.2 | 178.9 |
| 3* | 1645.2 | 1065.9 | 300.2 | -27.0 | 125.0 | 181.1 |
| 4 | 1659.3 | 1075.9 | 304.4 | -31.2 | 126.9 | 183.3 |
| YEAR | 1638.5 | 1062.5 | 293.5 | -19.5 | 121.8 | 180.2 |
| % change from 83 | 6.8 | 5.3 | 32.8 | --- | 4.8 | 2.5 |
| **1985:1** | 1672.2 | 1086.9 | 305.2 | -32.7 | 128.1 | 184.7 |
| 2 | 1685.2 | 1093.3 | 307.3 | -31.6 | 129.6 | 186.6 |
| 3 | 1695.1 | 1100.5 | 305.7 | -30.2 | 131.2 | 187.9 |
| 4 | 1701.1 | 1106.5 | 302.4 | -30.1 | 132.7 | 189.6 |
| YEAR | 1688.4 | 1096.8 | 305.2 | -31.2 | 130.4 | 187.2 |
| % change from 84 | 3.0 | 3.2 | 4.0 | --- | 7.1 | 3.9 |
| **1986:1** | 1708.8 | 1114.8 | 299.0 | -29.1 | 133.2 | 190.9 |
| 2 | 1720.4 | 1121.4 | 300.1 | -28.3 | 134.1 | 193.1 |
| 3 | 1735.3 | 1126.1 | 304.8 | -25.4 | 134.9 | 194.9 |
| 4 | 1751.2 | 1132.2 | 310.6 | -23.9 | 135.8 | 196.5 |
| YEAR | 1728.9 | 1123.6 | 303.6 | -26.7 | 134.5 | 193.9 |
| % change from 85 | 2.4 | 2.4 | -.6 | --- | 3.1 | 3.6 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

The forecast shows that inflation will fluctuate at low levels during the next two years. Look to it to be lower in 1985 than in 1984 and somewhat higher in the following year.

As measured by the Consumer Price Index, expect the rate of inflation to be 3.5% in 1985 and 5.2% in 1986 as compared to the prior year. (See Table 1.21.) The rate in 1987 is seen as somewhat higher than in 1986.

For the **Producer Price Index,** (PPI) the outlook for finished goods shows a rate of inflation almost the same as that of the CPI in 1985: 3.6%. During 1986 the PPI is expected to reflect a gain of 6.1% over the previous year. Such rates are still considered to be tolerable. There are four basic reasons for the outlook here:

1. As good harvests are expected in the current year and the following year, there is no significant gain seen for **food prices.**
2. **No "energy shocks" are predicted.** Look to the price of oil to remain fairly stable while natural gas prices gain just a bit--despite deregulation. The increases in electricial rates are not expected to be significant.
3. **The international value of the dollar** will remain high and continue to put pressure on domestic prices as companies will not allow much in price hikes in order to continue to be competitive internationally. It is the first time in the history of the USA for other nations to exert such a massive impact on our economy and on prices.
4. **Wages and salaries** are seen as increasing moderately with the gain set at 4% in 1985 and 5% in 1986. That is an acceptable moderate pressure on the wage aspect of costs.

The November jump in wholesale prices of 0.5% was attributed to the meat category. Such a jump is not anticipated by **KEDI** to occur again. Consumer prices were up a modest 0.2% in November. That brought the rate to just above 4% for the first 11 months of 1984. That is still moderate and is in line with the 3.8% of 1983 and the 3.9% of 1982.

TABLE 1.21

### PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes---* | | *-------Price deflators-------* | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross nat'l prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1972= 100 | 1972= 100 | 1972= 100 | 1972= 100 |
| Year & Qtr. | | | | | | |
| **1983*** | 298.4 | 285.2 | 215.2 | 213.6 | 234.9 | 236.7 |
| **1984:1*** | 306.4 | 290.6 | 220.6 | 218.0 | 238.5 | 246.4 |
| 2* | 309.7 | 281.4 | 222.4 | 219.2 | 240.6 | 250.1 |
| 3* | 313.1 | 291.4 | 224.6 | 221.5 | 241.6 | 253.4 |
| 4 | 315.4 | 292.4 | 226.2 | 223.9 | 242.7 | 255.9 |
| YEAR | 311.2 | 289.0 | 223.5 | 220.6 | 240.9 | 251.5 |
| % change from '83 | 4.3 | 1.3 | 3.8 | 3.3 | 2.5 | 6.3 |
| **1985:1** | 317.5 | 294.5 | 228.1 | 226.6 | 244.0 | 258.1 |
| 2 | 320.0 | 297.1 | 230.7 | 230.3 | 245.6 | 260.0 |
| 3 | 323.4 | 300.6 | 233.4 | 232.7 | 247.8 | 262.3 |
| 4 | 327.1 | 305.8 | 236.3 | 236.1 | 249.5 | 263.9 |
| YEAR | 322.0 | 299.5 | 232.1 | 231.5 | 246.7 | 261.1 |
| % change from '84 | 3.5 | 3.6 | 3.9 | 4.8 | 2.4 | 3.8 |
| **1986:1** | 331.5 | 309.6 | 239.2 | 238.4 | 251.3 | 266.4 |
| 2 | 335.7 | 314.7 | 242.6 | 242.3 | 253.4 | 268.8 |
| 3 | 340.6 | 320.3 | 246.0 | 246.9 | 255.6 | 270.3 |
| 4 | 346.8 | 326.7 | 247.3 | 248.5 | 258.1 | 271.2 |
| YEAR | 338.7 | 317.8 | 243.8 | 244.0 | 254.6 | 269.4 |
| % change from '85 | 5.2 | 6.1 | 5.0 | 5.4 | 3.2 | 3.2 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

The economy will continue recovering rather strongly especially in the first half of the year. In the second half, it will slow down a bit. The slackening of the pace will not signal any recessionary trend, however. **Personal spending** and **defense spending** will be the major factors contributing to the growth of GNP in 1985. Measured in current dollars, personal consumption expenditures will go up by approximately 8%, and defense spending by 11% when compared to the prior year. Most of the other components of GNP will grow moderately: Expect a continuous but not excessive growth in **business capital outlays** mainly for machinery and equipment, and also small increments in **total federal, and state and local purchases.** Main contributors to federal spending are seen as defense outlays: they will increase significantly. Adding the federal civilian outlays to them means the resulting growth of total federal spending will not be excessive. Faster growth is predicted for state and local purchases, mainly in wages and salaries paid to state and local employees.

Outlays on **residential construction** will stabilize slightly above the 1984 level--forecast data for housing starts and mobile home shipments show that this year will not be as successful for builders as was last year. A slightly higher level of residential outlays in 1985 compared to 1984 is due to expected price increases.

Two components will keep the 1985 GNP from a faster upward pace: **Inventories buildup** and **foreign trade.** The inventory cycle has already peaked and businesses will not be adding to their inventories in such an extent as in the last year. Increments in inventories will keep declining throughout the year. Some industries will keep excess inventories, however. Coal mines, iron ore mines, utilities, and the chemical industry serve as examples. In 1985, the **foreign trade** balance will remain deeply in red--the deficit will hover around $100 billion at least, and no improvement is seen for this year. One positive sign: growth of exports and imports will be more adequate and no further significant deterioration in the balance of trade will take place.

TABLE 1.22

**NOMINAL GNP**

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 3304.8 | 2155.9 | 471.6 | -8.3 | 269.7 | 415.8 |
| **1984:1*** | 3553.3 | 2276.5 | 623.8 | -51.5 | 267.6 | 436.8 |
| 2* | 3644.7 | 2332.7 | 627.0 | -58.7 | 296.4 | 447.4 |
| 3* | 3694.6 | 2361.4 | 662.8 | -90.6 | 302.0 | 458.9 |
| 4 | 3753.8 | 2410.1 | 667.5 | -100.8 | 308.0 | 469.0 |
| YEAR | 3661.5 | 2345.2 | 645.3 | -75.4 | 293.5 | 453.0 |
| % change from 83 | 10.8 | 8.8 | 37.4 | --- | 8.8 | 9.0 |
| **1985:1** | 3816.5 | 2462.5 | 670.5 | -105.8 | 312.6 | 476.7 |
| 2 | 3887.6 | 2518.4 | 672.4 | -105.4 | 318.3 | 483.9 |
| 3 | 3956.3 | 2561.3 | 678.2 | -101.3 | 325.2 | 492.9 |
| 4 | 4020.4 | 2612.5 | 682.1 | -99.4 | 331.1 | 494.1 |
| YEAR | 3920.2 | 2538.7 | 675.8 | -103.0 | 321.8 | 486.9 |
| % change from 84 | 7.1 | 8.2 | 4.7 | --- | 9.6 | 7.5 |
| **1986:1** | 4087.3 | 2658.0 | 684.2 | -98.2 | 334.8 | 508.5 |
| 2 | 4174.0 | 2717.1 | 687.3 | -94.1 | 339.8 | 523.9 |
| 3 | 4269.4 | 2779.8 | 701.5 | -83.4 | 344.8 | 526.7 |
| 4 | 4331.1 | 2813.3 | 720.6 | -77.8 | 347.2 | 527.8 |
| YEAR | 4215.5 | 2742.1 | 698.4 | -88.4 | 341.7 | 521.7 |
| % change from 85 | 7.5 | 8.0 | 3.3 | --- | 6.2 | 7.1 |

*Historical data.

## 1.23 DETAILED NOMINAL GNP

See Table 1.23 - page 12

In 1985 **spending on services** will remain the main contributor to the growth of **personal consumption expenditures.** It will increase by 10% while spending on consumer durables goes up 6% and spending on food, clothes, beverages, clothes, and other non-durables grows by 5%. More income will be spent on medical and hospital services, entertainment, lodging, travel, and financial services. As it concerns **spending on durables**: Expenditures on passenger cars will remain barely unchanged when compared to such expenditures in the last year as a smaller total of domestic cars with higher average prices and more imported, less expensive cars will be sold. The expected 6% increase in durables is mainly due to light trucks: a strong market will persist throughout the year because a growing number of buyers will prefer to spend their money on light trucks rather than on expensive, heavier models.

**Foreign trade imbalance** will significantly contribute to the expected slow growth of GNP. Such imbalance, in mathematics of calculations of GNP, optically reduces the positive growth picture of GNP components. How much will the foreign trade imbalance hurt the U.S. economy? That is a good question. There has not been developed any method or cost-benefit analysis to calculate and compare the pluses and minuses of a negative trade balance. On the positive side are such facts as a substantial contribution from the strong dollar to the international position and prestige of the United States, the pressures on U. S. businesses not to increase prices and pressure to modernize plants and increase productivity. On the negative side are losses of jobs and plant closings due to cheap imports. So far, the problem of the high international value of the dollar should remain indefinite. Solutions for particular industries affected by imports require judgments on an individual basis.

In summary, **the growth of nominal GNP in 1985 appears more proportionate though slower than it had been in 1984.** Expectations of personal consumption expenditures, business fixed capital outlays, pace of inventories, and moderate growth in purchases of the government sector present a definitely more balanced picture than in the last year.

### TABLE 1.23

### DETAILED NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| Year:Qtr<br>Unit | 1984:4<br>bil.$ | 1985:1<br>bil.$ | 1985:2<br>bil.$ | 1985:3<br>bil.$ | 1985:4<br>bil.$ | 1985<br>bil.$ |
|---|---|---|---|---|---|---|
| **INDICATOR** | | | | | | |
| Gross National Product | 3753.8 | 3816.5 | 3887.6 | 3956.3 | 4020.4 | 3920.2 |
| Personal cons. expenditures | 2410.1 | 2462.5 | 2518.4 | 2561.3 | 2612.5 | 2538.7 |
| Durables | 325.6 | 332.6 | 339.8 | 345.2 | 348.4 | 341.5 |
| Nondurables | 871.9 | 890.9 | 903.2 | 916.8 | 929.8 | 910.2 |
| Services | 1212.6 | 1239.0 | 1275.4 | 1299.3 | 1334.3 | 1287.0 |
| Gross Private dom. investment | 667.5 | 670.5 | 672.4 | 678.2 | 682.1 | 675.8 |
| Fixed investment | 610.8 | 638.7 | 647.1 | 655.5 | 662.7 | 651.0 |
| Nonresidential | 445.0 | 476.0 | 482.3 | 488.6 | 496.4 | 485.8 |
| Structures | 160.3 | 166.4 | 169.2 | 171.7 | 174.5 | 170.5 |
| Equipment | 294.7 | 309.6 | 313.1 | 316.9 | 321.9 | 315.3 |
| Residential | 155.8 | 162.7 | 164.8 | 166.9 | 166.3 | 165.2 |
| Change in inventories | 56.7 | 31.8 | 25.3 | 22.7 | 19.4 | 24.8 |
| Net exports | -100.8 | -105.8 | -105.4 | -101.3 | -99.4 | -103.0 |
| Government purch. | 777.0 | 789.3 | 802.2 | 818.1 | 825.2 | 808.7 |
| Federal | 308.0 | 312.6 | 318.3 | 325.2 | 331.1 | 321.8 |
| State & local | 469.0 | 476.7 | 483.9 | 492.9 | 494.1 | 486.9 |
| Saving rate (percentage) | 6.2 | 6.0 | 5.9 | 5.8 | 5.7 | 5.9 |

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

There is continued growth forecast for employment, but the pace will be less rapid than the one set in 1984. A comparison is given.

| Non-agriculture Employed | % Gain over Prior Year |
|---|---|
| 1984 | 4.2 |
| 1985 | 2.6 |
| 1986 | 2.5 |

The employment gains will take place in the **service sector** for the most part. That includes industries that supply the service sector as well. Look to increases in jobs in retail trade, hotels, restaurants, fast food chains, finance, insurance, and real estate.

**In goods-producing industries**, increases will take place primarily in food, chemicals and allied products, plastics, electric and electrical equipment, instruments, office supplies, and electronics. Sharp gains are expected in defense and defense-related industries.

Major growth is going to occur in the white-collar sector of the service industries, insurance, real estate, administration, and finance. As more and more offices convert to automated systems, additional new staff are often required along with new skills.

A survey by Manpower Inc. found that about 60% of the thousands of businesses questioned planned to keep the same number of employees in the first quarter of 1985 and about 20% planned on adding personnel. Staff reductions after the holidays are seen as lower than usual which indicates firmness in the overall employment trends. Some industries will have reductions in jobs. Particularly affected will be **mining, construction, primary metals,** and **nonelectrical machinery.** The industries that are forecast to be essentially flat are **rubber, lumber, furniture, automobiles, textiles, petroleum** and **coal products.**

The jobless rate moved down rather steadily throughout 1984 to the 7% range or about one-fifth lower on the average than in 1983. During 1985, the change is not expected to be nearly as great by comparison. Still, it will edge down to close to 7.1% around the middle of the year and gain fractionally in late 1985 and early 1986 with slight increases after that to close to 7.2% toward the end of the year.

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | Employment Total | Employment Agriculture | Employment Non agric. | Unemployment rate |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| **1983*** | 223.9 | 111.6 | 100.8 | 3.4 | 97.5 | 9.58 |
| **1984:1*** | 235.8 | 112.6 | 103.7 | 3.4 | 100.4 | 7.87 |
| 2* | 236.7 | 113.6 | 105.1 | 3.4 | 101.7 | 7.48 |
| 3* | 237.8 | 113.7 | 105.3 | 3.4 | 101.9 | 7.47 |
| 4 | 238.9 | 114.1 | 105.9 | 3.4 | 102.5 | 7.27 |
| YEAR | 237.3 | 113.5 | 105.0 | 3.4 | 101.6 | 7.52 |
| % change from 83 | 1.3 | 1.7 | 4.2 | --- | 4.2 | -21.5 |
| **1985:1** | 239.8 | 114.8 | 106.5 | 3.4 | 103.1 | 7.22 |
| 2 | 240.9 | 115.5 | 107.3 | 3.4 | 103.9 | 7.12 |
| 3 | 242.3 | 116.3 | 107.9 | 3.4 | 104.5 | 7.18 |
| 4 | 243.7 | 117.0 | 108.4 | 3.4 | 105.4 | 7.32 |
| YEAR | 241.6 | 115.9 | 107.5 | 3.4 | 104.2 | 7.21 |
| % change from 84 | 1.8 | 2.1 | 2.4 | --- | 2.6 | -4.1 |
| **1986:1** | 243.5 | 117.8 | 109.1 | 3.4 | 105.7 | 7.38 |
| 2 | 244.1 | 118.4 | 109.8 | 3.4 | 106.4 | 7.30 |
| 3 | 245.0 | 119.2 | 110.6 | 3.4 | 107.2 | 7.26 |
| 4 | 245.8 | 120.1 | 111.5 | 3.4 | 108.1 | 7.12 |
| YEAR | 244.6 | 118.9 | 110.3 | 3.4 | 106.9 | 7.27 |
| % change from 85 | 1.2 | 2.6 | 2.6 | --- | 2.5 | .8 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 19

As has been forecast here for almost two years, the **housing cycle has been winding down of late.** **KEDI** expects housing starts to decline to approximately the level reached in 1983 when single family starts amounted to 1.068 million and multi-family starts total 0.635 million.

However, as can be seen in Table 1.41, the declines are not extreme--1985 and 1986 will still be fairly good years for home builders. A year ago, **KEDI** forecast starts at 1.69 million (single and multi-family together). That forecast has only been changed slightly as the total now anticipated is 1.63 million in 1986.

The decline in sales of new homes in November was a temporary one. Sales of existing homes were up 7% from the previous November and 9.1% from October, 1984. Indications of a fair start in 1985 can be seen in the number of **building permits issued.** In November of 1984, there was a 10.7% hike in the requests for such permits. That was the first gain since June. Commerce Secretary Malcolm Baldrige pointed to the drop in mortgage rates over the last few months as adding to new housing activity both in building and in sales. **KEDI** agrees. (The reader is referred to Section 1.80 for more information on mortgage rates.)

Aubrey H. Zaffuto of J. Henry Schroder Bank & Trust estimated housing starts would go back up next year to around 1 9 million units. (**Business Week,** Dec. 3, 1984, page 21.) **KEDI** views that as overly optimistic and forecasts total starts for 1985 at 1.62 million.

This Institute is in general agreement with Michael Sumichrast of the National Association of Home Builders in the view that the decline in interest rates would lessen the decline expected in construction which he recently set at a drop of around 8% between 1984 and 1985. **KEDI** looks to a decline of roughly 7% between last year and this year.

The median price of an existing home was at $72,500--just 3% higher than a year earlier. The median price was the lowest in the Midwest: $55,600.

TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| **INDICATOR** | Single family housing starts | Multi-family housing starts | Mobile home ship-ments | Permits author-ized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | Tho. $ | Tho. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 1.068 | .635 | .296 | 1.594 | 89.8 | 82.5 |
| **1984:1*** | 1.278 | .690 | .298 | 1.809 | 94.7 | 86.7 |
| 2* | 1.138 | .768 | .294 | 1.743 | 99.0 | 87.4 |
| 3* | .979 | .685 | .302 | 1.504 | 98.0 | 91.7 |
| 4 | .955 | .538 | .298 | 1.530 | 98.8 | 92.7 |
| YEAR | 1.088 | .670 | .298 | 1.647 | 97.6 | 89.6 |
| % change from 83 | 1.8 | 5.6 | .7 | 3.3 | 8.7 | 8.6 |
| **1985:1** | .968 | .574 | .272 | 1.369 | 100.4 | 92.8 |
| 2 | 1.087 | .652 | .279 | 1.498 | 101.2 | 93.1 |
| 3 | 1.094 | .669 | .284 | 1.519 | 102.8 | 94.2 |
| 4 | .916 | .571 | .258 | 1.406 | 102.6 | 96.9 |
| YEAR | 1.016 | .617 | .273 | 1.448 | 101.8 | 94.3 |
| % change from 84 | -6.6 | -8.0 | -8.3 | -12.1 | 4.2 | 5.2 |
| **1986:1** | .886 | .638 | .278 | 1.432 | 102.8 | 95.3 |
| 2 | .989 | .641 | .246 | 1.361 | 103.6 | 97.0 |
| 3 | 1.056 | .623 | .262 | 1.588 | 107.2 | 98.6 |
| 4 | 1.068 | .591 | .281 | 1.504 | 110.5 | 101.2 |
| YEAR | 1.001 | .623 | .267 | 1.471 | 106.0 | 98.0 |
| % change from 85 | -1.4 | -1.0 | -2.3 | 1.6 | 4.3 | 4.0 |

*Historical data. **Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

The forecast is similar to that of the housing industry: 1984 was a good year, and 1985 will be quite adequate. Even though a slight decline in sales is forecast, they will still amount to close to 10 million passenger cars as compared to 10.3 million in 1984. Look to further slight declines in 1986 which is seen as the trough of the auto cycle.

As to imports, expect the number to increase during the rest of this decade. These will come primarily from Japan. (Readers of magazines that evaluate products certainly noted the high praise of such imports in terms of quality, economy, and low repair incidence and cost.) A long-term forecast is presented:

**Passenger Car Sales (Millions)**

| | Total | Domestic | Imported |
|---|---|---|---|
| 1984 | 10.3 | 7.7 | 2.5 |
| 1985 | 9.9 | 7.3 | 2.6 |
| 1986 | 9.7 | 7.1 | 2.6 |
| 1987 | 10.2 | 7.5 | 2.7 |
| 1988 | 10.9 | 8.0 | 2.8 |
| 1989 | 10.2 | 7.5 | 2.7 |
| 1990 | 10.0 | 7.3 | 2.7 |

**Light trucks.** Forecast data show that 1985 will be more successful than the record year 1984. Expect increases of 6% in such sales as compared to last year.

**Sales of Light Trucks (millions)**

| | |
|---|---|
| 1987 | 3.4 |
| 1988 | 3.8 |
| 1989 | 3.5 |
| 1990 | 3.3 |

**New car sales** moved up by 19.9% in the first 10 days of December with Chrysler and Ford taking the lead in percentage gains over year-earlier totals. (For those holding on to an old car, a bit of compensation is in the average cost per mile which goes down to 13 cents in the fifth year from an average of 28 cents when the car is new.)

TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| **INDICATOR** | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a.** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| **1983*** | 9.2 | 6.8 | 2.4 | 1.4 | 6.7 | 2.5 |
| **1984:1*** | 10.6 | 8.3 | 2.3 | 1.6 | 8.0 | 3.0 |
| 2* | 10.6 | 8.2 | 2.4 | 1.3 | 7.9 | 3.2 |
| 3* | 10.0 | 7.3 | 2.7 | 1.1 | 7.7 | 3.4 |
| 4 | 9.8 | 7.1 | 2.7 | 1.2 | 7.7 | 3.6 |
| YEAR | 10.3 | 7.7 | 2.5 | 1.2 | 7.9 | 3.3 |
| % change from 83 | 11.4 | 13.2 | 5.2 | -14.3 | 15.4 | 32.0 |
| **1985:1** | 9.9 | 7.3 | 2.6 | 1.3 | 7.4 | 3.2 |
| 2 | 10.0 | 7.3 | 2.7 | 1.5 | 7.5 | 3.5 |
| 3 | 9.8 | 7.2 | 2.6 | 1.7 | 7.2 | 3.4 |
| 4 | 9.8 | 7.2 | 2.6 | 1.6 | 7.2 | 3.5 |
| YEAR | 9.9 | 7.3 | 2.6 | 1.6 | 7.3 | 3.4 |
| % change from 84 | -4.1 | -5.2 | 4.0 | 29.8 | -7.3 | -6.3 |
| **1986:1** | 9.5 | 7.0 | 2.5 | 1.7 | 7.1 | 3.2 |
| 2 | 9.7 | 7.1 | 2.6 | 1.7 | 7.0 | 3.4 |
| 3 | 9.7 | 7.0 | 2.7 | 1.5 | 7.2 | 3.5 |
| 4 | 9.9 | 7.2 | 2.7 | 1.3 | 7.3 | 3.3 |
| YEAR | 9.7 | 7.1 | 2.6 | 1.3 | 7.2 | 3.4 |
| % change from 85 | -2.0 | -3.1 | -3.1 | -18.7 | -2.1 | -.3 |

*Historical data. **End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

In 1985 the **federal government policy will remain expansive.** Reaslistically, there is hardly anything that can be done to cut federal spending this year. Brave talks of cutting or freezing expenditures this year cannot be translated into reality as spending was authorized in 1984 and preceding years.

**KEDI** is more optimistic than the Administration in forecasting budget red ink. The last internal estimate from the Administration was for a deficit of $205-210 billion whereas **KEDI** looks to a total of about $190 billion this fiscal year based on spending on interest being lower than the White House estimates due to falling interest rates and revenue being somewhat higher from income taxes.

In 1985, Congress will cut a deal to reduce the burgeoning deficit in the following years. This Institute has incorporated a $40 billion budget-cut package for fiscal 1986, starting October 1, 1985. It is not easy to predict what will happen in Congress, but no tax increases are expected in that time.

The forecast of **state and local government budgets** shows healthy increases in the surpluses: For calendar 1984, a $51.2 billion or 16.2% gain was forecast. Look to the surplus to go up by 3.7% in 1985 and 11.7% in 1986 over each prior year. The long-term forecast at this Institute shows surpluses will continue.

Federal budget deficits should be considered along with state and local surpluses. Combining the two brings a more realistic picture as it expresses the need of the entire government for funds--not just a portion. When the red ink in Washington is combined with the excess of receipts over spending at the state and local levels, a substantial reduction in the overall deficit is apparent. It means that, realistically, federal debt is not as dangerous for financial markets and for the economy as some less informed analysts have attempted to demonstrate.

It should be remembered that **KEDI** has maintained for several years that interest rates and deficits are not directly connected. Agains, rates have been dropping while the deficit expands. Other sources of funds are available for financing: the inflow of foreign capital finances part of the deficit. Healthy business profits lessens their need for outside financing.

## TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | *-------FEDERAL | ----------* | | *----STATE AND LOCAL | ----* | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 295.2 | 59.8 | -178.6 | 109.0 | 16.0 | 44.1 |
| **1984:1*** | 301.6 | 73.0 | -161.3 | 116.7 | 19.7 | 53.9 |
| 2* | 310.7 | 75.6 | -163.7 | 119.6 | 20.2 | 54.5 |
| 3* | 319.7 | 65.3 | -180.6 | 121.2 | 17.8 | 47.6 |
| 4 | 326.6 | 68.2 | -184.2 | 123.6 | 18.4 | 48.9 |
| YEAR | 314.6 | 70.5 | -172.5 | 120.3 | 19.0 | 51.2 |
| % change from 83 | 6.6 | 17.9 | -3.4 | 10.4 | 18.9 | 16.2 |
| **1985:1** | 331.4 | 69.4 | -180.4 | 126.1 | 19.6 | 50.6 |
| 2 | 339.8 | 72.3 | -186.8 | 128.5 | 20.4 | 52.3 |
| 3 | 345.6 | 73.8 | -182.5 | 132.4 | 22.0 | 53.5 |
| 4 | 351.3 | 74.0 | -180.6 | 134.5 | 23.9 | 55.9 |
| YEAR | 342.0 | 72.4 | -182.6 | 130.4 | 21.5 | 53.1 |
| % change from 84 | 8.7 | 2.7 | 5.8 | 8.4 | 13.0 | 3.7 |
| **1986:1** | 353.4 | 73.8 | -180.3 | 135.6 | 23.8 | 56.4 |
| 2 | 356.3 | 73.2 | -178.6 | 136.7 | 24.5 | 58.6 |
| 3 | 360.2 | 76.4 | -176.2 | 138.9 | 26.9 | 60.4 |
| 4 | 368.5 | 78.5 | -170.3 | 145.7 | 28.5 | 61.8 |
| YEAR | 359.6 | 75.5 | -176.4 | 139.2 | 25.9 | 59.3 |
| % change from 85 | 5.1 | 4.3 | -3.4 | 6.8 | 12.1 | 11.7 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

The forecast data for personal income, personal disposable income, and components are optimistic. For 1985 and 1986, look to income expansion in line with the predicted growth of the economy in current dollars. (See Nominal GNP and Components on page 11 along with Table 1.60 on page 23.)

In 1985, the 8.1% growth in personal income and the 8.0% expansion in personal disposable income indicates taxes paid will be proportionate--no increase or decrease in the tax burden will take place. During 1986, the situation will remain essentially the same.

The news concerning the personal saving rate has not been very encouraging. The rate of saving averaged only 5% in 1983 and did not stay above 6% until the latter part of 1984. Look to saving rate of 5.8% in 1985. Anticipate a decline in 1986 to the 5.5% level. In historical perspective, rates of saving of 10-12% were not uncommon.

**Corporate profits**, after taxes, are seen as going up by 4.9% in 1985 as compared to a very healthy gain of 14.9% in 1984 over the prior year. Do not look to such profits to recuperate sharply. Expect them to be 9.2% higher in 1986 than 1985.

The outlook at **KEDI** for earnings by industries shows the majority of growth to be in high tech industries in 1985 such as computers, space, biomedical, and communications and related industries. In these fields, look to earnings to grow by roughly 30% or at about the same rapid rate as in 1984. For electronics, a growth rate in earnings of 28% has been forecast here. Anticipate growth of approximately 25% in the container and forest product industries; 24% for financial services, 18% for chemicals and products, and 15% in plastics. At the lower end of the scale are utilities with a 6% gain, oil service and supply and retailing with gains of 5%. Mixed results are expected in metal mining, oil and gas exploration, furniture and fixtures, farm machinery, and ferrous metals.

Earnings in the auto industry are seen here as healthy in 1985 but not as strong as in 1984. Expect profits of around $7 billion as compared to the $10 billion level of 1984 for that industry.

TABLE 1.60

### INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. Income | Comp. of Emp. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| **1983*** | 2744.2 | 2340.1 | 1984.9 | 127.4 | 118.1 | 354.5 |
| **1984:1*** | 2920.2 | 2502.2 | 2113.4 | 150.6 | 152.5 | 366.2 |
| 2* | 2984.6 | 2554.3 | 2159.2 | 150.2 | 144.8 | 370.1 |
| 3* | 3047.3 | 2606.4 | 2191.9 | 141.7 | 164.1 | 369.1 |
| 4 | 3106.2 | 2656.0 | 2268.7 | 143.2 | 163.8 | 368.9 |
| YEAR | 3014.6 | 2579.7 | 2183.3 | 146.4 | 156.3 | 368.6 |
| % change from 83 | 9.9 | 10.2 | 10.0 | 14.9 | 32.3 | 4.0 |
| **1985:1** | 3165.9 | 2708.4 | 2316.2 | 145.7 | 162.5 | 373.8 |
| 2 | 3232.8 | 2764.5 | 2360.1 | 150.2 | 161.8 | 379.5 |
| 3 | 3288.6 | 2810.6 | 2381.0 | 156.1 | 163.7 | 385.8 |
| 4 | 3347.5 | 2861.7 | 2388.4 | 162.4 | 162.1 | 391.9 |
| YEAR | 3258.7 | 2786.3 | 2361.4 | 153.6 | 162.5 | 382.8 |
| % change from 84 | 8.1 | 8.0 | 8.1 | 4.9 | 4.0 | 3.8 |
| **1986:1** | 3396.2 | 2907.2 | 2454.2 | 159.8 | 161.2 | 394.4 |
| 2 | 3464.0 | 2971.0 | 2483.6 | 161.3 | 164.5 | 398.8 |
| 3 | 3538.3 | 3039.2 | 2572.1 | 169.9 | 167.9 | 406.9 |
| 4 | 3592.6 | 3078.4 | 2617.4 | 179.9 | 171.7 | 414.5 |
| YEAR | 3497.8 | 2998.9 | 2531.8 | 167.7 | 166.3 | 403.7 |
| % change from 85 | 7.4 | 7.5 | 7.2 | 9.2 | 2.4 | 5.4 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 25

**KEDI** does not anticipate any more relaxing in Federal Reserve policy. Expect them to keep the same policy for about half a year. Some tightening is going to take place around that time as signs of acceleration in the rate of inflation will be seen. Do not look to a more definite and longer-lasting relaxing of monetary and credit policies before 1986.

This Institute does not expect the monetary target ranges of the Federal Reserve to be changed from the levels set at the end of 1984 for the 1985 period. They are high enough that they will not dampen growth of the economy. Look to growth of M1 and M2 to be moderate and within the target ranges set by the Fed. In 1985, M1 will grow by 5.2% and M2 by 9.0%. In 1986: 5.1% for M1 and 9.9% for M2.

During 1985, **credit markets** will present a more balanced picture than in 1984. Look to a significant slowing in **consumer credit** from the pace of expansion in 1984. A 4% rise in consumer credit is forecast here for 1985 over the previous year whereas the 1984 rate of growth in credit was 17.5%. The slowdown in such credit will be mainly due to less demand for auto credit and for household durables credit.

The rate of expansion of **commercial and industrial loans** will be much more modest in 1985. Such loans jumped ahead by 13.7% during 1984. Anticipate 5.3% growth in this area in 1985.

The forecast for **mortgage credit** also reflects a slackening in the rate of expansion. During 1985, the change here will be attributable to housing starts for the most part. Also involved are mobile home purchases which will be essentially flat while purchases of existing homes are forecast as being only slightly higher in 1985 than in 1984.

Mortgages at Savings and Loan Associations are estimated at $537.8 billion at the end of 1984: an increase of 9% over the prior year. Look to $556.2 billion at the end of 1985 which represents a gain of 3.4% over the prior year. In 1986, the pace of expansion will slow a bit more to reflect an average gain of 2.9%

TABLE 1.70

## MONEY AND CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm.& indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 509.0 | 2115.9 | 396.1 | 413.7 | 325.9 | 493.4 |
| **1984:1*** | 532.7 | 2217.3 | 402.5 | 428.2 | 340.7 | 502.1 |
| 2* | 540.8 | 2257.7 | 427.6 | 453.2 | 379.1 | 526.8 |
| 3* | 547.0 | 2292.3 | 449.7 | 462.4 | 392.9 | 533.0 |
| 4 | 555.7 | 2370.5 | 456.8 | 470.2 | 405.3 | 537.7 |
| YEAR | 544.1 | 2284.5 | 456.8 | 470.2 | 405.3 | 537.7 |
| % change from 83 | 6.9 | 8.0 | 15.3 | 13.7 | 24.4 | 9.0 |
| **1985:1** | 562.1 | 2412.6 | 458.9 | 480.7 | 408.6 | 541.6 |
| 2 | 571.3 | 2470.4 | 461.7 | 487.3 | 412.5 | 548.6 |
| 3 | 574.5 | 2518.5 | 464.5 | 493.6 | 416.4 | 552.5 |
| 4 | 578.9 | 2560.6 | 475.0 | 495.1 | 423.7 | 556.2 |
| YEAR | 572.2 | 2490.5 | 475.0 | 495.1 | 423.7 | 556.2 |
| % change from 84 | 5.2 | 9.0 | 4.0 | 5.3 | 4.5 | 3.4 |
| **1986:1** | 586.3 | 2639.6 | 477.3 | 498.5 | 428.7 | 557.9 |
| 2 | 593.6 | 2701.7 | 479.6 | 502.7 | 434.5 | 559.4 |
| 3 | 607.9 | 2767.6 | 482.5 | 507.6 | 439.6 | 565.8 |
| 4 | 617.1 | 2838.5 | 487.8 | 514.2 | 449.1 | 572.1 |
| YEAR | 601.2 | 2736.9 | 487.8 | 514.2 | 449.1 | 572.1 |
| % change from 85 | 5.1 | 9.9 | 2.7 | 3.9 | 6.0 | 2.9 |

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

As outlined in the previous section, **do not expect any further significant declines in interest rates.** Forecast data here show that interest rates, in general are leveling off and will remain close to current levels for about half a year. **KEDI** does not share the view of Commerce Department chief economist Robert Ortner that such rates might continue on a downward slide.

There is no threat of recession that could push the Federal Reserve into easing monetary and credit conditions further. **KEDI** adheres to the view that a rate of 5% on Treasury bills and a prime rate of 7% would represent enough of a stimulus to prevent a recessionary down-turn. However, that is not the case. Such rates are not needed as there is no recession to prevent.

The forecast data show the only rates declining marginally are mortgage rates and long-term bond rates. No other rates are seen moving down. The trough will be reached in the second quarter of 1985 when the conventional mortgage rate is predicted as hovering around 12.80% and the 20-year government bond yield reaching close to 11.60% at that time.

In the second part of 1985, look to interest rates **to start to climb again.** Toward the end of this year, three-month Treasury bills will be around 9.5%, the prime rate will be back to 11%, and long-term yields on bonds will hover around 12%.

**Bond market.** No surprising ups or downs are projected. The present strength of the bond market will be preserved. Expect larger shifts of funds from CD´s, money market funds, and other short-term investments into bonds.

**Stock market.** The forecast here is optimistic. The market will remain strong throughout the year. Look to the Dow-Jones Industrials to be in the 1,150 to 1,300 range. The Standard & Poor´s 500 Average is forecast in the 156-165 range during 1985.

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg. rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P´s 1941-43 500 Avg. |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1983* | 8.61 | 10.70 | 13.43 | 12.05 | 11.34 | 160.41 |
| 1984:1* | 9.17 | 11.07 | 13.57 | 12.28 | 12.16 | 160.50 |
| 2* | 9.81 | 12.31 | 13.98 | 12.97 | 12.68 | 155.76 |
| 3* | 10.32 | 12.99 | 14.45 | 12.99 | 12.83 | 160.54 |
| 4 | 8.27 | 11.29 | 13.50 | 12.29 | 12.16 | 163.15 |
| YEAR | 9.39 | 11.92 | 13.88 | 12.63 | 12.46 | 159.99 |
| % change from 83 | 9.1 | 11.1 | 4.0 | 4.8 | 9.5 | -.3 |
| 1985:1 | 7.71 | 10.41 | 13.31 | 11.83 | 11.82 | 164.26 |
| 2 | 8.06 | 10.56 | 12.78 | 11.25 | 11.67 | 162.87 |
| 3 | 8.56 | 11.01 | 13.29 | 11.30 | 11.96 | 159.79 |
| 4 | 9.47 | 11.18 | 13.61 | 11.54 | 12.19 | 158.40 |
| YEAR | 8.45 | 10.79 | 13.25 | 11.48 | 11.90 | 161.33 |
| % change from 84 | -10.0 | -9.5 | -4.6 | -9.9 | -4.5 | .8 |
| 1986:1 | 10.56 | 11.85 | 13.72 | 12.13 | 11.86 | 154.26 |
| 2 | 10.15 | 11.78 | 13.61 | 12.35 | 12.19 | 150.48 |
| 3 | 9.54 | 10.89 | 13.18 | 11.70 | 12.65 | 153.29 |
| 4 | 8.21 | 10.22 | 13.36 | 11.22 | 13.09 | 158.76 |
| YEAR | 9.62 | 11.19 | 13.47 | 11.85 | 12.45 | 154.20 |
| % change from 85 | 13.8 | 3.7 | -1.6 | 3.2 | 4.6 | -4.4 |

*Historical data.

## 2.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,**FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 2.00

**HISTORICAL DATA SOURCES**

| Table Number | Data Series | Source |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 2.00 continues on the following page.)

## TABLE 2.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| **1.41 Housing** | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| **1.42 Autos** | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| **1.50 Federal and State Budgets** | **Federal govt:** Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:** Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| **1.60 Income** | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| **1.70 Money and Credit** | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| **1.80 Interest Rates, Yields, & Securities Prices** | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

## FEBRUARY 1, 1985

Prepared by the staff of

**Kent Economic and Development Institute, Inc.**

P.O. Box 99

Tallmadge, Ohio 44278

(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

Diane L. Lewis
Editor and Assistant Writer

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## CONTENTS

Page

0.00 **Introduction**

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

1.00 **Detailed Forecasts**

1.10 Real Growth 6
1.20 Prices and Nominal GNP
  1.21 Prices 8
  1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
  1.41 Housing 14
  1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24

2.00 **The Kent Economic Forecasting System (continued)** 26

3.00 **Comparisons of Accuracy of Predictions** 28

4.00 **Historical Data Sources** 29

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29

**SOURCES:**

U.S.Department of Commerce first estimates of 1984:4 National Income and Product data, January 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, January 1985.

The lastest available data on prices, employment, industrial, and financial developments.

# 0:00 INTRODUCTION

## 0:01 EXECUTIVE SUMMARY

### Highlights

* 1985 will be a good year with moderate growth.
* 1986 shows slower growth, but still positive.
* 1987 and 1988 on an upward trend.

### Real Growth

Good report card for the GNP--actual output gets higher marks than reported.

### Prices

Consumer Price Index has a temperature--driven up by prices of services. Producer Price Index feeling fine--stable most of 1985. Exports will blossom on some farms and in the silicon valley.

### Employment & Labor

Good news for job increases in industries supplying the service sector--bad news and a tough job market in the primary industries.

### Housing

"Pent up" demand for lower-cost homes accelerates as mobile homes hit the brakes.

### Automobiles

Light trucks shifting up as the auto cycle winds down. Imports to increase as Detroit outprices itself again.

### Budgets

Will we ever have a balanced budget? Can we ever afford it? Budget battle over the federal deficit heats up on Capitol Hill.

### Income

Forecast of income this year will be the best since 1984. Corporate profits outlook is positive as high tech hits new highs.

### Money & Credit

The economy is turning in a good performance while the Fed relaxes. The Feds next move will be toward a tougher credit policy, possibly mid-year.

### Interest Rates, Yields & Security Prices

Interest rates in hibernation awaiting the spring thaw. Bond market cloudy--stock market sunny.

## 0.02 OVERVIEW

A record 1984 deficit of $123 billion in the U.S. balance of trade is reported. It will probably get worse this year. The press blames the Administration for keeping the dollar artifically high causing products to be less competitive as well as depressing domestic industries--steel, copper, textiles, footwear, farm and construction machinery, and others. A strong dollar is blamed for **red ink** in foreign trade and domestic job losses. The strong dollar is cited for depressed conditions in manufacturing, primary metals and mining. **Is** the dollar really overvalued? Few dare pin figures on **"overvaluation."** Some say 10-40%, but a close look doesn´t reveal an overvalued dollar. U.S. inflation is lower than most countries. Other currencies depreciate faster than the dollar as foreign rates of exchange decline against it. **The dollar remains strong--only to** strenghten! It will weaken **only** if domestic inflation runs as high as other countries. Don´t look for this to happen. **Foreign** prices are comparable to domestic equivalents. Lower foreign prices come from subsidized commodities--foreign government policy--not the strong dollar.

**Is the foreign trade gap really hurting the U.S. economy?** Is the domestic economy losing because of the strong dollar? **Copper** was considered a victim but it´s recuperating and producing at higher levels. Last year was one of **autos** best, and **steel** is getting on its feet. **Exports are increasing, not decreasing.** Electronics, communications equipment and others are looking up. Exports of grain and agricultural products look bright--no indication that the strong dollar is harming exports.

**Strengths of the strong dollar:** key factor in international politics--stimulates cost reduction and increases productivity--aids other economies. As foreign economies strenghten they buy more U.S. products which starts to close the export-import gap. **KEDI** anticipates this in late 1986 and early 1987, bringing trade deficits to more normal levels. There is not enough evidence to justify the assertion that the strong dollar is hurting the U.S. economy. **Maybe** it should be the other way around.

TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

| Indicator | Unit | 1984 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Gross national product | bil.72$ | 1639.0 | 1734.6 | 1802.2 | 1890.5 |
| | % change | 6.8 | 2.4 | 3.9 | 4.9 |
| Index of industrial production | 1967=100 | 163.4 | 176.0 | 188.1 | 204.5 |
| | % change | 10.7 | 3.3 | 6.9 | 8.7 |
| Capacity utilization | % | 81.8 | 81.2 | 82.0 | 82.5 |
| | % change | 12.9 | -.9 | 1.0 | .6 |
| Unemployment rate | % | 7.51 | 7.27 | 6.97 | 6.72 |
| | % change | -21.7 | .8 | -4.1 | -3.5 |
| Private housing starts | mil. units | 1.771 | 1.624 | 1.938 | 2.153 |
| | % change | 4.7 | -.6 | 19.2 | 11.1 |
| Car sales | mil. units | 10.3 | 9.7 | 10.3 | 10.9 |
| | % change | 11.4 | -2.0 | 5.7 | 6.1 |
| Implicit GNP price deflator | 1972=100 | 223.4 | 243.0 | 255.9 | 269.7 |
| | & change | 3.7 | 5.9 | 5.3 | 5.4 |
| Consumer price index | 1967=100 | 311.0 | 336.7 | 353.9 | 374.0 |
| | & change | 4.1 | 4.5 | 5.1 | 5.7 |
| Producer price index (finished goods) | 1967=100 | 289.0 | 316.6 | 335.9 | 358.4 |
| | % change | 1.2 | 5.7 | 6.1 | 6.7 |
| Federal deficit | bil. $ | -173.5 | -179.2 | -170.8 | -163.6 |
| | % change | -2.9 | -3.7 | -4.7 | -4.2 |
| Personal income | bil. $ | 3013.1 | 3497.3 | 3823.1 | 4243.6 |
| | % change | 9.7 | 6.8 | 9.3 | 11.0 |
| Prime rate | % | 11.93 | 11.13 | 10.15 | 9.28 |
| | % change | 11.4 | -8.6 | -8.8 | -8.6 |
| Mortgage rate | % | 13.82 | 13.46 | 12.37 | 11.17 |
| | %change | 2.9 | 1.9 | -8.1 | -9.7 |
| Currency plus demand deposits | bil. $ | 542.6 | 597.7 | 635.4 | 677.9 |
| | %change | 6.5 | 5.0 | 6.3 | 6.7 |
| Commercial and industrial loans | bil. $ | 470.9 | 516.8 | 536.4 | 568.1 |
| | %change | 13.8 | 4.2 | 3.8 | 5.9 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.

2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.

3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.

4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.

5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.

6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.

7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the February 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more sustainable level in 1987.

TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unem-ploym't rate | Capac. util'n rate | Pvt. hous'g starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1967=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| **1983*** | 1534.7 | 147.6 | 9.6 | 72.5 | 1.703 | 9.2 |
| **1984:1*** | 1610.9 | 159.8 | 7.9 | 80.7 | 1.968 | 10.6 |
| 2* | 1638.8 | 163.1 | 7.5 | 81.8 | 1.906 | 10.6 |
| 3* | 1645.2 | 165.6 | 7.5 | 82.6 | 1.664 | 10.0 |
| 4 | 1661.1 | 165.1 | 7.3 | 82.2 | 1.547 | 9.8 |
| YEAR | 1639.0 | 163.4 | 7.5 | 81.8 | 1.771 | 10.3 |
| % change from '83 | 6.8 | 10.7 | -21.7 | 12.9 | 4.7 | 11.4 |
| **1985:1** | 1675.3 | 167.9 | 7.2 | 82.3 | 1.542 | 9.9 |
| 2 | 1688.5 | 169.4 | 7.1 | 82.1 | 1.739 | 10.0 |
| 3 | 1699.6 | 171.6 | 7.2 | 81.9 | 1.763 | 9.8 |
| 4 | 1706.3 | 172.4 | 7.3 | 81.3 | 1.487 | 9.8 |
| YEAR | 1692.4 | 170.3 | 7.2 | 81.9 | 1.633 | 9.9 |
| % change from '84 | 3.2 | 4.2 | -4.1 | .0 | -8.5 | -4.1 |
| **1986:1** | 1713.4 | 171.8 | 7.4 | 80.9 | 1.524 | 9.5 |
| 2 | 1726.7 | 173.5 | 7.3 | 81.1 | 1.630 | 9.7 |
| 3 | 1740.8 | 176.9 | 7.3 | 81.3 | 1.679 | 9.7 |
| 4 | 1757.4 | 181.6 | 7.1 | 81.5 | 1.659 | 9.9 |
| YEAR | 1734.6 | 176.0 | 7.3 | 81.2 | 1.624 | 9.7 |
| % change from '85 | 2.4 | 3.3 | .8 | -.9 | -.6 | -2.0 |

*Historical data.

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

**Good report card for GNP--actual output higher than reported.** For more than a year **KEDI** has forecast moderate, solid growth in 1985 with a slight slow down--but still good performance--in 1986. In addition to data in Tables 0.00, 1.11 and 1.12, the following data add to the positive picture for 1985 and 1986:

**Percent changes over the previous year**

| | **1985** | **1986** |
|---|---|---|
| Durable goods orders (current $) | +9.2 | +8.5 |
| Retail sales (current $) | +4.2 | +3.2 |
| Business capital outlays (current $) | +5.7 | +4.2 |
| Machine tool orders (current $) | +15.7 | +11.3 |
| Employment (mil. persons) | +2.4 | +2.6 |

Data on **GNP** in real terms adjusted for inflation also point to growth. However, data in the past has been distorted by foreign trade figures. In calculating **GNP**, foreign trade enters as **net** exports (exports minus imports). In the past this difference was small having no significant influence. Now it is different. The large foreign trade deficit of 1984, and for the next few years, causes a large negative input into the calculation of the GNP. **Consequently, the nation´s total output of goods and services is** reported smaller than actual output. Correspondingly, the actual rates of economic growth is higher than reported. Judgements about the growth of the economy based on rates of growth of GNP (with high negative net exports) have to be made with reservation keeping in mind that the actual output is higher than reported.

What is more important is the **direction of exports.** With exports **and** domestic consumption up, momentum is in the right direction. More goods and services are imported. **That´s all.**

There is more on the **export-import gap** in the **OVERVIEW** on page two.

TABLE 1.12

**REAL GNP**

Quarterly data are seasonally adjusted at annual rates.

| | *-------------- | ---------Gross | National Product | -------------- | ------------ | -----------* |
|---|---|---|---|---|---|---|
| **INDICATOR** | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| **1983*** | 1534.7 | 1009.2 | 221.0 | 12.6 | 116.2 | 175.7 |
| **1984:1*** | 1610.9 | 1044.1 | 285.5 | -8.3 | 112.2 | 177.3 |
| 2* | 1638.8 | 1064.2 | 283.9 | -11.4 | 123.2 | 178.9 |
| 3* | 1645.2 | 1065.9 | 300.2 | -27.0 | 125.0 | 181.1 |
| 4 | 1661.1 | 1076.2 | 289.1 | -15.2 | 129.1 | 181.9 |
| YEAR | 1639.0 | 1062.7 | 289.7 | -15.7 | 122.4 | 179.8 |
| % change from '83 | 6.8 | 5.2 | 31.0 | --- | 5.3 | 2.3 |
| **1985:1** | 1675.3 | 1091.1 | 295.1 | -26.3 | 131.4 | 184.0 |
| 2 | 1688.5 | 1100.1 | 296.6 | -27.7 | 133.6 | 185.9 |
| 3 | 1699.6 | 1107.7 | 297.5 | -28.0 | 135.2 | 187.1 |
| 4 | 1706.3 | 1110.4 | 294.6 | -27.2 | 138.7 | 189.8 |
| YEAR | 1692.4 | 1102.3 | 296.0 | -27.3 | 134.7 | 186.7 |
| % change from '84 | 3.2 | 3.7 | .3 | --- | 10.0 | 3.8 |
| **1986:1** | 1713.4 | 1110.9 | 299.5 | -27.5 | 139.4 | 191.1 |
| 2 | 1726.7 | 1117.2 | 301.6 | -28.0 | 142.1 | 193.8 |
| 3 | 1740.8 | 1121.0 | 305.2 | -25.6 | 144.8 | 195.4 |
| 4 | 1757.4 | 1125.4 | 313.1 | -23.8 | 145.8 | 196.9 |
| YEAR | 1734.6 | 1118.6 | 304.9 | -26.2 | 143.0 | 194.3 |
| % change from '85 | 2.4 | 1.6 | -2.9 | --- | 6.1 | 4.0 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

**Consumer Price Index has a temperature--driven up by prices of services.** No significant changes in the past month. Some downward revisions take place in forecast data for 1986. Consumer prices will go up in 1986 by 4.5% instead of 5.2% reported last month. In 1985 and 1986, expect prices of **food, beverages, apparel,** footwear and other nondurables to increase moderately. Prices of **nondurables** will rise 2.8% in 1985 and 3.2% in 1986 compared to previous years. The **CPI** will be driven up by prices of **services.** Anticipate above average increases in the cost of transportation, medical and hospital services, entertainment, hotels, motels, banking and insurance, repairs, housing services, telephone, legal and professional services. Expect an average jump of 5.8% this year compared to 1984, and 6.1% in 1986 compared to 1985.

**Producer Price Index feeling fine--stable most of 1985.** Forecast data for 1985 remains unchanged. For 1986 there is a revised downward trend from a 6.1% increase reported in the January forecast, to 5.7% reported in this issue. **KEDI** holds to its forecast that **producer prices** will remain stable for most of 1985 and 1986 with some upward trend near the end of 1986. **KEDI** forecast data show prices of grain remaining essentially unchanged through 1985 and 1986--except a slight firming in corn and soybeans--with more significant **drops in prices for coffee and tea.** Cotton, wool, softwood, and rubber prices will hover at present levels for most of this year and next. More significant increases are anticipated for woodpulp. **Prices of metals** will remain stable. Expect prices of aluminum, copper, nickel, lead, zinc, iron ore and steel, and bauxite to advance moderately. **KEDI** does not share the view that anticipates a drastic drops in these prices. This Institute´s forecast points to some declines this year--a leveling in 1986--resuming an upward trend the following year.

TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes---* | | *-------Price deflators-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross nat'l prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967=100 | 1967=100 | 1972=100 | 1972=100 | 1972=100 | 1972=100 |
| Year & Qtr. | | | | | | |
| 1983* | 298.4 | 285.2 | 215.2 | 213.6 | 234.9 | 236.7 |
| 1984:1* | 306.4 | 290.6 | 220.6 | 218.0 | 238.5 | 246.4 |
| 2* | 309.7 | 281.4 | 222.4 | 219.2 | 240.6 | 250.1 |
| 3* | 313.1 | 291.4 | 224.6 | 221.5 | 241.6 | 253.4 |
| 4 | 315.0 | 292.2 | 225.9 | 222.9 | 244.8 | 256.5 |
| YEAR | 311.0 | 288.9 | 223.4 | 220.4 | 241.3 | 251.6 |
| % change from 83 | 4.1 | 1.2 | 3.7 | 3.1 | 2.7 | 6.2 |
| 1985:1 | 317.4 | 294.2 | 227.8 | 226.5 | 244.3 | 258.0 |
| 2 | 320.0 | 297.1 | 229.5 | 229.1 | 246.0 | 259.9 |
| 3 | 323.2 | 300.7 | 232.7 | 232.4 | 249.2 | 262.0 |
| 4 | 327.0 | 305.8 | 235.8 | 234.9 | 252.4 | 263.2 |
| YEAR | 321.9 | 299.5 | 231.5 | 230.7 | 248.0 | 260.8 |
| % change from 84 | 3.4 | 3.6 | 3.6 | 4.5 | 2.7 | 3.6 |
| 1986:1 | 330.7 | 309.0 | 238.9 | 238.1 | 253.7 | 265.9 |
| 2 | 333.6 | 314.1 | 241.2 | 241.9 | 255.9 | 268.6 |
| 3 | 338.4 | 318.9 | 244.9 | 246.1 | 258.4 | 269.9 |
| 4 | 344.0 | 323.7 | 246.9 | 247.9 | 261.2 | 271.0 |
| YEAR | 336.7 | 316.6 | 243.0 | 243.5 | 257.3 | 268.9 |
| % change from 85 | 4.5 | 5.7 | 4.9 | 5.5 | 3.7 | 3.1 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

**Exports will blossom on some farms and in the silicon valley.** Gross private domestic investment and net exports are revised upward in the forecast this month compared to January.

The forecast for **gross private domestic investment** that includes both nonresidential and residential construction, as well as changes in business inventories, has been revised slightly downward because of changes in inventories. Now, it´s anticipated that businesses will not accumulate the large inventories previously forecast. Reductions in the growth of inventories in 1985 pertain mostly to **mining**--especially coal and iron ore mines--and lower than previously anticipated growth of **farm** inventories.

**Net exports.** Data for net exports is revised upward. Now it is expected that exports will **grow faster**--mainly corn, wheat and soybeans. Larger volumes of **computers,** communication equipment, **and electronics** in general will be exported in 1985 and 1986.

Data on **imports** remain essentially unchanged compared to the previous forecast. Imports will grow steadily this year, slowing down the growth in 1986. The trend toward more balanced U.S. trade will start early in 1987 and continue for several years.

A **decline in imports** in the fourth quarter of last year is seen as temporary. Analysis shows that this decline resulted from the slowdown of the economy in the third quarter of 1984. Less commodities were imported due to lower demand by industry. Forecast data for the first quarter of 1985 show that imports will resume an upward trend.

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1983* | 3304.8 | 2155.9 | 471.6 | -8.3 | 269.7 | 415.8 |
| 1984:1* | 3553.3 | 2276.5 | 623.8 | -51.5 | 267.6 | 436.8 |
| 2* | 3644.7 | 2332.7 | 627.0 | -58.7 | 296.4 | 447.4 |
| 3* | 3694.6 | 2361.4 | 662.8 | -90.6 | 302.0 | 458.9 |
| 4 | 3752.5 | 2398.6 | 635.5 | -64.3 | 311.0 | 466.6 |
| YEAR | 3661.3 | 2342.3 | 637.3 | -66.3 | 294.3 | 452.4 |
| % change from 83 | 10.7 | 8.6 | 35.1 | --- | 9.1 | 8.8 |
| 1985:1 | 3816.3 | 2471.3 | 631.2 | -81.9 | 321.0 | 474.7 |
| 2 | 3875.1 | 2520.3 | 628.5 | -85.6 | 328.7 | 483.2 |
| 3 | 3955.0 | 2574.3 | 643.9 | -90.3 | 336.9 | 490.2 |
| 4 | 4023.5 | 2608.3 | 652.0 | -86.5 | 350.1 | 499.6 |
| YEAR | 3917.7 | 2543.6 | 639.0 | -86.1 | 334.2 | 486.9 |
| % change from 84 | 7.0 | 8.5 | .2 | --- | 13.5 | 7.6 |
| 1986:1 | 4093.3 | 2645.0 | 664.3 | -77.8 | 353.7 | 508.1 |
| 2 | 4164.8 | 2702.5 | 650.6 | -72.4 | 363.6 | 520.5 |
| 3 | 4263.2 | 2758.8 | 673.4 | -70.6 | 374.2 | 527.4 |
| 4 | 4339.0 | 2789.9 | 702.2 | -67.5 | 380.8 | 533 6 |
| YEAR | 4215.1 | 2723.8 | 672.8 | -72.1 | 368.0 | 522.5 |
| % change from 85 | 7.5 | 7.0 | 5.2 | --- | 10.1 | 7.3 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

**Good news for the service sector--bad news for primary industries.** **KEDIs** forecast remains firm. The 1985 civilian labor force will grow by about 2.1% while employment in the nonagriculture sector of the economy grows by 2.6%. This creates a further reduction in the unemployment rate of about 4%--a reduction from 7.51% average in 1984 to 7.21% average in 1985. That´s an improvement but not as good as the impressive 21.7% decline in the unemployment rate in 1984 compared to 1983.

Look for jobs to **increase** in industries supplying the **service** sector. In general, employment in goods producing industries will level off.

Anticipate some increases in unemployment in the fourth quarter of 1985. **KEDI** expects a **tough job market** in the primary industries--coal, iron ore and nonferrous metals minings; oil extraction; industries supplying the oil industry; stone quarrying; glass and clay industries; and some nonelectrical machinery--especially farm machinery and equipment.

This year the unemployment rate will hover slightly above 7%. **KEDI** expects some up and down surprises but they will not affect the predicted trend for 1985 and 1986. Statistical quirks may crop up because of the procedures followed in collecting, aggregating and adjusting the unemployment data that do not reflect actual conditions. Be careful in interpreting these unemployment figures at the beginning and middle of this year. Large layoff in January result from hirings during the Christmas surge, and students leaving school in June may cause the unemployment rate to shoot up. This is called **seasonal** adjustment.

The employment outlook for 1986 is **cautiously optomistic.** Generally, unemployment will ease gradually. Expect more significant improvement early in the second half of 1986 when an accelerating economy will generate more new jobs.

TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *------Employment------* | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Population | Civil. labor force | Total | Agriculture | Non agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| **1983*** | 223.9 | 111.6 | 100.8 | 3.4 | 97.5 | 9.58 |
| **1984:1*** | 235.8 | 112.6 | 103.7 | 3.4 | 100.4 | 7.87 |
| 2* | 236.7 | 113.6 | 105.1 | 3.4 | 101.7 | 7.48 |
| 3* | 237.8 | 113.7 | 105.3 | 3.4 | 101.9 | 7.47 |
| 4 | 238.9 | 114.1 | 105.9 | 3.4 | 102.5 | 7.21 |
| YEAR | 237.3 | 113.5 | 105.0 | 3.4 | 101.6 | 7.51 |
| % change from 83 | 1.3 | 1.7 | 4.2 | --- | 4.2 | -21.7 |
| **1985:1** | 239.8 | 114.8 | 106.5 | 3.4 | 103.1 | 7.22 |
| 2 | 240.9 | 115.5 | 107.3 | 3.4 | 103.9 | 7.12 |
| 3 | 242.3 | 116.3 | 107.9 | 3.4 | 104.5 | 7.18 |
| 4 | 243.7 | 117.0 | 108.4 | 3.4 | 105.4 | 7.32 |
| YEAR | 241.6 | 115.9 | 107.5 | 3.4 | 104.2 | 7.21 |
| % change from 84 | 1.8 | 2.1 | 2.4 | --- | 2.6 | -4.1 |
| **1986:1** | 243.5 | 117.8 | 109.1 | 3.4 | 105.7 | 7.38 |
| 2 | 244.1 | 118.4 | 109.8 | 3.4 | 106.4 | 7.30 |
| 3 | 245.0 | 119.2 | 110.6 | 3.4 | 107.2 | 7.26 |
| 4 | 245.8 | 120.1 | 111.5 | 3.4 | 108.1 | 7.12 |
| YEAR | 244.6 | 118.9 | 110.3 | 3.4 | 106.9 | 7.27 |
| % change from 85 | 1.2 | 2.6 | 2.6 | --- | 2.5 | .8 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

**"Pent-up" demand for lower-cost homes accelerates as mobile homes hit the brakes.** KEDI holds to the January forecast. In 1985, the housing activity level will be just below 1984, with 1986 slightly less than this year. The two-year decline is not significant compared to the good performance of 1984. The forecast for **mobile home** shipments shows some decline this year. Compared to 1984, shipments will decline approximately 8%, leveling off in 1986.

A significant increase in **housing starts** is expected in 1987 signalling the beginning of a **new housing cycle.** This year, single-family housing starts are forecast slightly above one million units. Expect main increases in lower-cost homes--below $75-80,000. Buyers for these homes priced toward the lower end of the market have "the greatest pent-up demand, at the present time," according to experts. Anticipate a strong demand for **apartment buildings** because vacancy rates are dipping well below the normal 5% nationwide.

KEDI forecasts upward sales of **existing single-family homes** by 4.9% this year compared to a 5.5% increase last year. This follows the 44.1% surge in 1983 compared to the depressed 1982. The expected increase in sales this year of 4.9% is good performance, however, quarterly data show that most home sales will occur in the first half with a slow down in the second half.

Prices for homes show moderate upward trends for 1985 and 1986 in the forecast. Median sales price for existing homes will rise by 5.3% in 1985 over last year, and by 5.8% in 1986 over this year.

**Median Prices--Existing Homes**

| | |
|---|---|
| December 1982 | $69,900 |
| December 1984 | $72,800 |
| December 1985 | $76,900 |
| December 1986 | $81,600 |

TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home ship-ments | Permits author-ized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | Tho. $ | Tho. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 1.068 | .635 | .296 | 1.594 | 89.8 | 82.5 |
| **1984:1*** | 1.278 | .690 | .298 | 1.809 | 94.7 | 86.7 |
| 2* | 1.138 | .768 | .294 | 1.743 | 99.0 | 87.4 |
| 3* | .979 | .685 | .302 | 1.504 | 98.0 | 91.7 |
| 4 | .969 | .578 | .290 | 1.539 | 98.8 | 92.7 |
| YEAR | 1.091 | .680 | .297 | 1.649 | 97.6 | 89.6 |
| % change from 83 | 2.1 | 7.1 | .1 | 3.4 | 8.7 | 8.6 |
| **1985:1** | .968 | .574 | .272 | 1.369 | 100.4 | 92.8 |
| 2 | 1.087 | .652 | .279 | 1.498 | 101.2 | 93.1 |
| 3 | 1.094 | .669 | .284 | 1.519 | 102.8 | 94.2 |
| 4 | .916 | .571 | .258 | 1.406 | 102.6 | 96.9 |
| YEAR | 1.016 | .617 | .273 | 1.448 | 101.8 | 94.3 |
| % change from 84 | -6.6 | -8.0 | -8.3 | -12.1 | 4.2 | 5.2 |
| **1986:1** | .886 | .638 | .278 | 1.432 | 102.8 | 95.3 |
| 2 | .989 | .641 | .246 | 1.361 | 103.6 | 97.0 |
| 3 | 1.056 | .623 | .262 | 1.588 | 107.2 | 98.6 |
| 4 | 1.068 | .591 | .281 | 1.504 | 110.5 | 101.2 |
| YEAR | 1.001 | .623 | .267 | 1.471 | 106.0 | 98.0 |
| % change from 85 | -1.4 | -1.0 | -2.3 | 1.6 | 4.3 | 4.0 |

*Historical data. **Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

**Light trucks shifting up as the auto cycle winds down.** There are no **significant** changes in forecast data for 1985 and 1986. **KEDI** still forecasts a **winding down** of the automobile cycle. In general, the demand for cars this year will be weaker than last year with further small decreases in 1986.

No change in the market share of imported car sales is expected in 1985 but next year imports will increase in the total car sales. Import restrictions expiring on March 31, 1985 will probably be renewed. Removal or modification of the restrictions will not really influence the automobile market in the short run. Before any significant increase in imports of Japanese cars can occur, dealer networks will have to expand to meet the demand.

A **strong** market remains for **light trucks.** Expect some declines this year and next, however, the light-duty truck sales will decline less than the drop in passenger cars. The automakers pricing policy for light trucks increases their attractiveness. With the second round of price increases for passenger cars--coupled with gradual elimination of lower priced cars from the market--buyers for less expensive units are shifting into the light trucks.

Don´t look for the pricing policy in Detroit to change much--at least for the first half of this year. Price increases were close to the inflation rate in 1984 over most models in 1983. The recent, second round price hikes have created more **sticker shock** by boosting the increases above the inflation rate. Expect the "expansive" pricing policy of American cars to continue through most of this year creating a **buyer´s market** in 1986.

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a.** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1983* | 9.2 | 6.8 | 2.4 | 1.4 | 6.7 | 2.5 |
| 1984:1* | 10.6 | 8.3 | 2.3 | 1.6 | 8.0 | 3.0 |
| 2* | 10.6 | 8.2 | 2.4 | 1.3 | 7.9 | 3.2 |
| 3* | 10.0 | 7.3 | 2.7 | 1.1 | 7.7 | 3.4 |
| 4 | 9.8 | 7.1 | 2.7 | 1.2 | 7.7 | 3.6 |
| YEAR | 10.3 | 7.7 | 2.5 | 1.2 | 7.9 | 3.3 |
| % change from 83 | 11.4 | 13.2 | 5.2 | -14.3 | 15.4 | 32.0 |
| 1985:1 | 9.9 | 7.3 | 2.6 | 1.3 | 7.4 | 3.2 |
| 2 | 10.0 | 7.3 | 2.7 | 1.5 | 7.5 | 3.5 |
| 3 | 9.8 | 7.2 | 2.6 | 1.7 | 7.2 | 3.4 |
| 4 | 9.8 | 7.2 | 2.6 | 1.6 | 7.2 | 3.5 |
| YEAR | 9.9 | 7.3 | 2.6 | 1.6 | 7.3 | 3.4 |
| % change from 84 | -4.1 | -5.2 | 4.0 | 29.8 | -7.3 | -6.3 |
| 1986:1 | 9.5 | 7.0 | 2.5 | 1.7 | 7.1 | 3.2 |
| 2 | 9.7 | 7.1 | 2.6 | 1.7 | 7.0 | 3.4 |
| 3 | 9.7 | 7.0 | 2.7 | 1.5 | 7.2 | 3.5 |
| 4 | 9.9 | 7.2 | 2.7 | 1.3 | 7.3 | 3.3 |
| YEAR | 9.7 | 7.1 | 2.6 | 1.3 | 7.2 | 3.4 |
| % change from 85 | -2.0 | -3.1 | -3.1 | -18.7 | -2.1 | -.3 |

*Historical data. **End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

**Will we ever have a balanced budget? Can we afford one?** No significant change has occured in the forecast data from the previous month for the federal, state or local government receipts and outlays. Little--if anything--can be done to reduce this year´s federal deficit. It is difficult to predict results of the **budget battle** on Capitol Hill, or how the Administration proposes to deal with the federal budget this coming fiscal year. **KEDI**s forecast data incorporates a $40 billion budget-cut package for the coming fiscal year. The Administration wants to cut in the $60 billion range, however, Congress is in no mood to cut that deeply into existing programs. So, **KEDI** expects a more modest, though still substantial, $40 billion saving. Including this $40 billion cut this coming fiscal year, with increasing cuts to follow, **KEDI** forecasts federal deficits in coming fiscal years:

**FEDERAL DEFICITS**

| Fiscal Years | Bil.US $ |
|---|---|
| 1986 | 181.3 |
| 1987 | 162.5 |
| 1988 | 132.6 |
| 1989 | 124.8 |
| 1990 | 117.5 |

The Administration´s proposal for a $100 billion deficit in fiscal 1988 predicts that deficit trimming will bring the government sector into balance with the rest of the economy. Growing surpluses at state and local levels will match the federal deficit. Forecast data for state and local government surpluses show $77 billion by 1990. Then, the government sector taken as a whole would be nearly in balance.

**KEDI** has maintained for several years that balancing the federal budget is not realistic. If it ever takes place it will result in **disaster** for the economy! With a balanced budget the government sector--taken as a whole--would show abnormal surpluses with negative effects on demand, production, and employment.

TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | *-------FEDERAL----------- | | * | *----STATE AND LOCAL----* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1983* | 295.2 | 59.8 | -178.6 | 109.0 | 16.0 | 44.1 |
| 1984:1* | 301.6 | 73.0 | -161.3 | 116.7 | 19.7 | 53.9 |
| 2* | 310.7 | 75.6 | -163.7 | 119.6 | 20.2 | 54.5 |
| 3* | 319.7 | 65.3 | -180.6 | 121.2 | 17.8 | 47.6 |
| 4 | 327.3 | 68.8 | -188.3 | 123.7 | 18.4 | 48.9 |
| YEAR | 314.8 | 70.7 | -173.5 | 120.3 | 19.0 | 51.2 |
| % change from 83 | 6.6 | 18.1 | -2.9 | 10.4 | 18.9 | 16.2 |
| 1985:1 | 331.4 | 69.4 | -184.6 | 126.2 | 19.7 | 50.6 |
| 2 | 340.4 | 72.3 | -189.2 | 129.4 | 20.6 | 52.4 |
| 3 | 346.9 | 74.8 | -185.7 | 133.8 | 22.0 | 53.8 |
| 4 | 353.4 | 77.5 | -184.3 | 136.7 | 24.0 | 56.1 |
| YEAR | 342.9 | 73.5 | -186.0 | 131.5 | 21.6 | 53.2 |
| % change from 84 | 8.9 | 5.9 | 7.1 | 9.3 | 13.5 | 3.9 |
| 1986:1 | 354.9 | 77.5 | -184.5 | 137.4 | 23.8 | 56.5 |
| 2 | 359.6 | 79.2 | -180.6 | 139.2 | 24.9 | 58.9 |
| 3 | 367.3 | 84.5 | -178.4 | 141.9 | 25.8 | 60.8 |
| 4 | 373.1 | 88.5 | -173.1 | 145.9 | 27.8 | 62.6 |
| YEAR | 363.7 | 82.4 | -179.2 | 141.1 | 25.6 | 59.7 |
| % change from 85 | 6.0 | 12.1 | -3.7 | 7.3 | 7.5 | 12.2 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

**Income this year will be the best since 1964 as high tech hits new highs.** For 1985 and 1986, the forecast is optimistic. Data for income and components remain essentially unchanged during the past month. All indications point to growth in personal and business income and its components.

**Personal income** in 1985 will grow by 8.5% compared to 9.7% in 1984. That represents some slowing down but growth is in line with smaller increases in employment expected this year over 1984. **Personal disposable income** (income after all taxes) will rise by 8.4%. This is far below the 3.4% rate of inflation expected this year. **Real disposable income** (adjusted for inflation) will increase steadily. Calculations reveal that **real disposable income per capita** will grow by 1.8% this over over last year. It will grow by another 1.2% in 1986 over 1985.

**Corporate profits** outlook is positive. Although not as spectacular as last year's 15.0% percent increase in after tax corporate profits, the expected 5.3% rise is encouraging. Leaders in earnings will be **high tech, services, and** manufacturing industries supplying the service industries. Expect average profits in other manufacturing and transportation. Mixed results will come from **primary metals,** oil, and energy exploration.

Forecast of income this year will be the best since 1964. A 6.1% increase compared to last year's 6.8% increase, and against the 7.1% increase in 1964 indicates that 1985 will be the best year for **income** in nearly two decades.

## TABLE 1.60

## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| **1983*** | 2744.2 | 2340.1 | 1984.9 | 127.4 | 118.1 | 354.5 |
| **1984:1*** | 2920.2 | 2502.2 | 2113.4 | 150.6 | 152.5 | 366.2 |
| 2* | 2984.6 | 2554.3 | 2159.2 | 150.2 | 144.8 | 370.1 |
| 3* | 3047.3 | 2606.4 | 2191.9 | 141.7 | 164.1 | 369.1 |
| 4 | 3100.4 | 2649.4 | 2268.7 | 143.6 | 166.2 | 368.9 |
| YEAR | 3013.1 | 2578.1 | 2183.3 | 146.5 | 156.9 | 368.6 |
| % change from 83 | 9.7 | 10.1 | 10.0 | 15.0 | 32.8 | 4.0 |
| **1985:1** | 3180.4 | 2722.8 | 2316.0 | 146.1 | 165.7 | 373.8 |
| 2 | 3241.8 | 2772.0 | 2359.3 | 151.3 | 163.9 | 379.6 |
| 3 | 3309.9 | 2829.2 | 2379.6 | 156.9 | 165.4 | 386.0 |
| 4 | 3354.9 | 2864.8 | 2386.1 | 163.1 | 163.1 | 391.7 |
| YEAR | 3271.8 | 2797.2 | 2360.3 | 154.4 | 164.5 | 382.8 |
| % change from 84 | 8.5 | 8.4 | 8.1 | 5.3 | 4.8 | 3.8 |
| **1986:1** | 3398.1 | 2905.8 | 2454.6 | 162.4 | 164.6 | 394.5 |
| 2 | 3467.4 | 2968.6 | 2484.0 | 165.8 | 167.2 | 399.0 |
| 3 | 3538.7 | 3029.2 | 2569.9 | 169.8 | 169.4 | 407.1 |
| 4 | 3585.0 | 3067.0 | 2610.1 | 179.7 | 172.6 | 414.8 |
| YEAR | 3497.3 | 2992.7 | 2529.7 | 169.4 | 168.5 | 403.9 |
| % change from 85 | 6.8 | 6.9 | 7.1 | 9.7 | 2.4 | 5.5 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

**The economy is turning in a good performance while the Fed relaxes.** The **Fed** will keep policies relaxed through the first half of 1985 before considering some tightening. Some economists believe the **Fed** will start tightening soon, probably this month, but **KEDI** does not share that view. There is ample evidence that the economy will have a **good performance** this year without signs of overheating necessitating restrictive steps by the Fed. There will be no further moves to relax the monetary and credit conditions. Demand by consumers and businesses will remain fairly strong. It will need to be stimulated by easier monetary and credit conditions. The Fed´s next move will be toward a tougher credit policy. **KEDI** doesn´t expect this to happen before mid-year when evidence shows that growth will be sustained and inflationary pressures reappear. Don´t expect a long-lasting relaxation in monetary and credit policies before 1986.

Forecast data for M1, M2, and M3 show that monetary aggregates will behave within the targets set by the **Fed** for 1985. **KEDI** doesn´t expect the Fed to soften the target ranges further. Tinkering with the money-supply target ranges may stimulate the inflationary expectations and contribute to an excessive monetary expansion that is not needed. In the past two months, M1 has grown at an annual rate of 9.7% compared to the preceding four months when M1 actually declined by .5%. **KEDI** expects that M1 will continue at a brisk pace for two or three months and then will slow down to a more normal 5-6% growth in the second half of this year. Forecast data for M2 and M3 show that both aggregates will behave within target ranges although close to the upper ones--M2 around 9% and M3 in the 9-10% bracket. The present target range for M2 is 6-8.5% and 6-9% for M3.

Upward revision occurs in the forecast data for **money and credit** in 1986, mainly for **consumer installment credit, commercial and industrial loans, and mortgage credit.**

## TABLE 1.70

## MONEY AND CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm.& indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 509.0 | 2115.9 | 396.1 | 413.7 | 325.9 | 493.4 |
| **1984:1*** | 532.7 | 2217.3 | 402.5 | 428.2 | 340.7 | 502.1 |
| 2* | 540.8 | 2257.7 | 427.6 | 453.2 | 379.1 | 526.8 |
| 3* | 547.1 | 2292.9 | 450.1 | 462.4 | 392.9 | 544.3 |
| 4 | 549.7 | 2346.6 | 470.2 | 470.9 | 409.8 | 552.1 |
| YEAR | 542.6 | 2278.6 | 470.2 | 470.9 | 409.8 | 552.1 |
| % change from 83 | 6.5 | 7.6 | 18.7 | 13.8 | 25.7 | 11.8 |
| **1985:1** | 560.6 | 2402.2 | 475.7 | 480.8 | 412.6 | 561.8 |
| 2 | 565.7 | 2459.7 | 479.4 | 487.6 | 416.8 | 568.9 |
| 3 | 571.7 | 2508.2 | 484.6 | 494.0 | 420.5 | 578.5 |
| 4 | 577.3 | 2551.1 | 489.7 | 495.8 | 423.5 | 584.7 |
| YEAR | 568.8 | 2480.3 | 489.7 | 495.8 | 423.5 | 584.7 |
| % change from 84 | 4.9 | 8.8 | 4.1 | 5.2 | 3.3 | 5.9 |
| **1986:1** | 584.6 | 2629.3 | 496.4 | 499.3 | 428.9 | 589.6 |
| 2 | 590.1 | 2690.8 | 499.8 | 504.8 | 434.8 | 597.8 |
| 3 | 603.5 | 2757.1 | 505.7 | 509.3 | 439.6 | 605.4 |
| 4 | 612.4 | 2828.2 | 509.6 | 516.8 | 449.7 | 612.7 |
| YEAR | 597.7 | 2726.4 | 509.6 | 516.8 | 449.7 | 612.7 |
| % change from 85 | 5.0 | 9.9 | 4.0 | 4.2 | 6.1 | 4.7 |

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

**Interest rates are in hibernation awaiting the spring thaw!** Do not expect interest rates to drop much more. They are leveling off and further declines will be marginal--if any at all. There are no indications to bring about further declines.

**CONSUMER CREDIT.** Demand will remain strong for auto loans and other consumer durables with no abatement through 1986. Despite mounting debts and some signs of flagging confidence, consumers will spend for large items. As shown in Table 1.70, consumer installment credit will continue to grow--more modestly than in 1984--but still a respectable 4.1% this year compared to last year. **KEDI** predicts further growth for 1986.

**MORTGAGES.** Don´t look for further easing in mortgage rates. **KEDI** forecasts a marginal decline then a slight upward turn in the second half of this year. Housing starts, existing home sales, and mobile home shipments for 1985 and 1986 show good performance though lower than last year. **KEDI** shares the opinion of the Mortgage Bankers Association of America who contend that mortgage rates have hit bottom for now but will heat up by summer. **KEDI** does not expect mortgage rates to go as high as some believe. John Paulus, chief economist at Morgan Stanley & Co expects conventional mortgage rates to go up to 13.5-14.5% compared to the present 12.8%. Joseph Hu, housing finance analyst at Salomon Brothers predicts 15%. **KEDI** expects mortgage rates to go slightly above 13% in the second half of this year then start a slow decline.

**COMMERCIAL LOANS.** Expect higher interest rates in the second half this year when businesses will seek more funds to finance inventory expansion and capital outlays. Anticipate bond yields to stabilize or marginally decline then too. Projection of bond yields shows further declines in the first quarter of 1986 with only gradual improvement throughout the rest of 1986. Contrary to the bond market, the stock market forecast is more optimistic. Expect a stable performance throughout 1985 and even better in 1986.

## TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg. rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P´s 1941-43 500 Avg. |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1983* | 8.61 | 10.70 | 13.43 | 12.05 | 11.34 | 160.41 |
| 1984:1* | 9.17 | 11.07 | 13.57 | 12.28 | 12.16 | 160.50 |
| 2* | 9.81 | 12.31 | 13.98 | 12.97 | 12.68 | 155.76 |
| 3* | 10.32 | 12.99 | 14.45 | 12.99 | 12.83 | 160.54 |
| 4 | 8.21 | 11.34 | 13.26 | 12.28 | 12.14 | 165.72 |
| YEAR | 9.37 | 11.93 | 13.82 | 12.63 | 12.46 | 160.63 |
| % change from 83 | 8.8 | 11.4 | 2.9 | 4.8 | 9.5 | .1 |
| 1985:1 | 7.70 | 10.52 | 13.24 | 11.86 | 11.84 | 175.34 |
| 2 | 8.01 | 10.61 | 12.81 | 11.29 | 11.69 | 173.85 |
| 3 | 8.51 | 11.08 | 13.22 | 11.38 | 11.97 | 166.27 |
| 4 | 9.39 | 11.22 | 13.57 | 11.62 | 12.28 | 169.51 |
| YEAR | 8.46 | 10.86 | 13.21 | 11.54 | 11.95 | 171.24 |
| % change from 84 | -10.4 | -9.0 | -4.5 | -8.7 | -4.2 | 6.6 |
| 1986:1 | 10.50 | 11.79 | 13.73 | 12.15 | 11.87 | 159.36 |
| 2 | 10.18 | 11.68 | 13.59 | 12.38 | 12.24 | 162.47 |
| 3 | 9.56 | 10.79 | 13.19 | 11.75 | 12.66 | 167.24 |
| 4 | 8.19 | 10.24 | 13.34 | 11.19 | 13.14 | 173.13 |
| YEAR | 9.61 | 11.13 | 13.46 | 11.87 | 12.48 | 165.55 |
| % change from 85 | 14.4 | 8.6 | 1.9 | 2.8 | 4.4 | -3.6 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

The February through December 1984 issues of the this survey contained descriptions of segments of the Kent Economic Forecasting System, primarily the **Kent Model** of the U.S. economy. The next several issues will focus on general characteristics of the **Kent Model.**

## 5.0 GENERAL CHARACTERISTICS OF THE KENT MODEL

### 5.1 ORIENTATION ON THE FUTURE--NOT THE PAST

The **Kent Model** is oriented on the future. There are still a few macroeconomic models that are based on expectations of events that will take place in the future rather than on historical data, however, **most** current economic models still use historical data as a basis for their projections. Reliance on **historical data** is the **main weakness** and center of **criticism** for **most models.** This criticism and lack of confidence has damaged the reputation of the profession. Well known economic models such as the **DRI Model, Wharton Model**, and **Chase Econometric Model** have failed to provide accurate forecasts. According to some analysts, these models often forecast the opposite of what actually happens. Today there is distrust among corporate executives as to the forecasting ability of economic and business models. Many executives have decided to give up subscriptions to econometric models. They prefer a more modern forecasting system.

The main reason such economic models **fail and will continue** to fail is the mechanical projection of past data into the future. They expect, naively, that what has happened in the past will necessarily occur in the future. In economics and the business world, **history repeats** but always with **differences.** The outcome of "seemingly similar events" are not the same at all.

## THE KENT ECONOMIC FORECASTING SYSTEM

Economic models, based on historical data, were not able to forecast the deep recession we experienced in 1981-1982, because no such recession has taken place since World War II. Consequently, such data were not in those models´ data banks. They could not predict a **10.3%** unemployment rate or a **21%** prime rate because such events never occurred before. There are many more **weaknesses and failures** in the performance of economic and business models that are based on history. They use historical, statistical methods to forecast the future. They cannot predict the turning points in business cycles or understand the peaks and valleys of economic activity. The **Kent Model** of the U.S. economy has abandoned reliance on history. Since 1976, the **Kent Model** has been based on modern and advanced methods and procedures that yield a higher degree of accuracy of predictions compared to the accuracy of other, historically-oriented forecasting systems.

The basis of the **Kent Model** is in the future, where, according to the author´s opinion, any basis of forecasting belongs. In short, the forecasts of the **Kent Model** are generated in the following way:

*** Expectations of producers, consumers, buyers, sellers and other economic agents are predicted.**

*** Differing plans are brought together and balanced to yield a forecast of expected events.**

This approach is more realistic than mechanical projections of the past into the future. It corresponds with the way business, consumer and governmental units proceed. They build their expectations into plans and then adjust according to current changing situations in the economy.

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, **Index of Industrial Production in 1984** has been selected for comparison. The actual figure has been calculated from monthly releases of **G.12 Index of Industrial Production** (Board of Governors of the Federal Reserve System, Washington, D.C., monthly). Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

### TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS

(Index of Industrial Production, 1967=100)

**Actual figure: 163.4**

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Economics Department, U.S. Trust Company, New York, p. 10 | 12/83 | 162.0 | -.9 |
| J. A. Livingston, **The Philadelphia Inquirer**, p. 15 | 12/25/83 | 161.0 | -1.5 |
| L. D. Reece, Cities Service Oil and Gas Corporation, p. 17 | 1/84 | 161.5 | -1.2 |
| Economics Department, Bankers Trust Company, p. 19 | 1/6/84 | 163.6 | +.1 |
| First Interstate Bank of Calif., p.20 | 11/4/83 | 160.2 | -2.0 |
| Georgia State University, p. 21 | 11/83 | 162.1 | -.8 |
| Chemical Bank, p. 22 | 11/4/83 | 161.3 | -1.3 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 161.3 | -1.3 |
| Research Seminar in Quantitative Economics, Univ. of Michigan, p. 24 | 11/17/83 | 169.2 | +3.5 |
| American Statistical Assn & National Bureau of Economic Research, p. 25 | 12/83 | 161.4 | -1.3 |
| Citicorp Information Service, p. 27 | 12/1/83 | 160.5 | -1.8 |
| Metropolitan Life Insurance, p. 28 | 12/1/83 | 160.4 | -1.9 |
| Alex A. Burkholder, WGN Continental Broadcasting Company, p. 30 | 12/15/83 | 161.9 | -1.0 |
| Fidelity Bank, p. 32 | 12/19/83 | 160.9 | -1.6 |
| Evans Economics, Inc, p. 34 | 12/22/83 | 160.4 | -1.9 |
| Chase Econometrics, p. 35 | 12/24/83 | 162.3 | -.7 |
| Data Resources, Inc, p. 36 | 12/24/83 | 162.7 | -.5 |
| The Journal of Business Forecasting Consensus Forecast from Quarterly Survey, p. 37 | 1/84 | 161.1 | -1.5 |
| Mellon Bank, p. 38 | 1/84 | 161.5 | -1.2 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **164.9** | **+.9** |
| Lehman Bros Kuhn Loeb, Inc, p. 40 | 1/5/84 | 161.1 | -1.5 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 164.4 | +.6 |
| Standard & Poor's Corp, p. 44 | 1/12/84 | 162.3 | -.7 |
| Armco, Inc, p. 45 | 1/18/84 | 162.4 | -.7 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:**Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:**Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.**

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

## MARCH 1, 1985

Prepared by the staff of
**Kent Economic and Development Institute, Inc.**
P.O. Box 99
Tallmadge, Ohio 44278
(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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## CONTENTS

Page

0.00 **Introduction**

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

1.00 **Detailed Forecasts**

1.10 Real Growth 6
1.20 Prices and Nominal GNP
1.21 Prices 8
1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
1.41 Housing 14
1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24

2.00 **The Kent Economic Forecasting System (continued)** 26

3.00 **Comparisons of Accuracy of Predictions** 28

4.00 **Historical Data Sources** 29

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29

**SOURCES:**

U.S.Department of Commerce second estimates of 1984:4 National Income and Product data, February 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, February 1985.

The lastest available data on prices, employment, industrial, and financial developments.

# 0:00 INTRODUCTION

## 0:01 EXECUTIVE SUMMARY

### Highlights

The buck stops here--or does it? The dollar will take a break on international markets then edge back up to remain king of the hill. Expect fewer imports across the board with the international adjustment of the greenback.

### Real Growth

Defense and durable goods lead the economy through the first quarter turn with flying colors while non-defense orders bring up the rear.

### Prices

"The operation was a success--but the patient died," when he got his bill. The cost of **wellness** heads CPIs most wanted list of offenders. PPI on good behavior for the next 3-6 months.

### Employment & Labor

You can't beat the establishment! Or, can you? Depends upon who you believe. Establishment data for February and March will bask in the sun with significant improvements in jobs.

### Housing

The housing industry is skating on thin ice while they whistle a happy tune. Mortgage rates have bottomed out!

### Automobiles

Tempers in Detroit hit record RPMs while Reagan bows sayonara to voluntary import quotas.

### Budgets

President Reagan making it clear he will wean the calf from Washington as he turns a deaf ear to farmers, but he's wearing rose-colored glasses as he gazes into the long-term budget deficit.

### Income

Everything's coming up roses in the personal income garden. January was up .5% over December. Corporate after-tax profits to grow 5.5% this year over last year.

### Money & Credit

Fed Chairman will not fiddle with his violin so long as it continues to play such sweet music. Some fine tuning may be necessary in the third quarter.

### Interest Rates, Yields & Security Prices

Interest rates are coming out of hibernation looking bullish. Mortgage rates have landed at the bottom of the hill after a long steady slide over the last eight months.

## 0.02 OVERVIEW

### U.S. Dollar Rate of Exchange

**"Take two aspirin and call me in the morning."** The **timely and effective** intervention by central banks throughout the world brought about an adjustment in the **rate of exchange** for the dollar on the **foreign exchange market.** As a result, the dollar declined against most major currencies. The dollar was close to one with Pound Sterling; Swiss Frank: 2.90, French Frank: 11, German Mark: 3.5. These rates did not reflect real conditions. Although intervention is necessary at times, the recent effect on foreign markets is nothing more than a band-aid over the real wounds. Such adjustments may help curb the soaring rate of the U.S. dollar temporarily, but they cannot change basic trends or cure deep wounds overnight.

### Why is the dollar so strong?

Foreign inflation grows at a much faster rate! It´s that simple. Compared to U.S. inflation (3-4% annually), other countries are around 10%--not to mention the 50-100% inflation in some developing countries. So, the **rate of exchange** for the dollar will keep increasing to close the inflation gap around the world. **The healthy state of the U.S. economy, coupled with** political stability makes the U.S. an attractive place to invest. If these conditions remain alive and well there is no **force** or **intervention** strong enough to keep the dollar down. **The dollar will resume flight upward soon.** .

### How can the dollar be stabilized?

U.S. inflation must go up to match higher levels in other countries--a **grim** price to pay! God save us from that. Other countries must get a grip on their economies. They must stimulate growth and keep inflation down to make their economies attractive for investment. **That´s the only way.** Don´t hold your breath!

## TABLE 0.00
## KEDI FORECAST HIGHLIGHTS

| Indicator | Unit | 1984 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Gross national product | bil.72$ | 1639.9 | 1735.5 | 1803.2 | 1889.8 |
| | % change | 6.9 | 2.5 | 3.9 | 4.8 |
| Index of industrial production | 1967=100 | 163.4 | 176.2 | 188.5 | 204.7 |
| | % change | 10.7 | 3.4 | 7.0 | 8.6 |
| Capacity utilization | % | 81.7 | 81.7 | 82.5 | 83.1 |
| | % change | 11.3 | -.5 | 1.0 | .7 |
| Unemployment rate | % | 7.51 | 7.25 | 6.95 | 6.70 |
| | % change | -21.7 | .1 | -4.1 | -3.6 |
| Private housing starts | mil. units | 1.747 | 1.628 | 1.944 | 2.158 |
| | % change | 2.6 | -.9 | 19.4 | 11.0 |
| Car sales | mil. units | 10.3 | 9.9 | 10.5 | 11.1 |
| | % change | 11.4 | -.3 | 5.8 | 6.1 |
| Implicit GNP price deflator | 1972=100 | 223.4 | 242.5 | 255.4 | 269.2 |
| | & change | 3.7 | 4.7 | 5.3 | 5.4 |
| Consumer price index | 1967=100 | 311.0 | 336.7 | 354.2 | 374.0 |
| | & change | 4.2 | 4.5 | 5.2 | 5.6 |
| Producer price index (finished goods) | 1967=100 | 289.0 | 316.6 | 335.6 | 357.7 |
| | % change | 1.2 | 5.8 | 6.0 | 6.6 |
| Federal deficit | bil. $ | -173.6 | -178.4 | -169.8 | -162.5 |
| | % change | -2.8 | -4.5 | -4.8 | -4.3 |
| Personal income | bil. $ | 3012.8 | 3472.1 | 3788.1 | 4189.6 |
| | % change | 9.8 | 7.0 | 9.1 | 10.6 |
| Prime rate | % | 12.04 | 11.24 | 10.24 | 9.36 |
| | % change | 11.6 | 1.7 | -8.9 | -8.6 |
| Mortgage rate | % | 13.84 | 13.48 | 12.37 | 11.17 |
| | %change | 3.0 | 1.7 | -8.2 | -9.7 |
| Currency plus demand deposits | bil. $ | 545.0 | 603.9 | 640.7 | 683.0 |
| | %change | 7.1 | 4.7 | 6.1 | 6.6 |
| Commercial and industrial loans | bil. $ | 470.9 | 526.4 | 546.9 | 579.2 |
| | %change | 13.8 | 5.6 | 3.9 | 5.9 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged:

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the March 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more sustainable level in 1987.

TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unem-ploym't rate | Capac. util'n rate | Pvt. hous'g starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1967=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1983* | 1534.7 | 147.6 | 9.6 | 72.5 | 1.703 | 9.2 |
| 1984:1* | 1610.9 | 159.8 | 7.9 | 80.7 | 1.968 | 10.6 |
| 2* | 1638.8 | 163.1 | 7.5 | 81.8 | 1.886 | 10.6 |
| 3* | 1645.2 | 165.6 | 7.5 | 82.5 | 1.622 | 10.0 |
| 4 | 1664.8 | 165.1 | 7.3 | 81.8 | 1.513 | 9.8 |
| YEAR | 1639.9 | 163.4 | 7.5 | 81.7 | 1.747 | 10.3 |
| % change from '83 | 6.9 | 10.7 | -21.7 | 11.3 | 2.6 | 11.4 |
| 1985:1 | 1676.1 | 167.9 | 7.3 | 82.4 | 1.548 | 9.9 |
| 2 | 1688.9 | 169.5 | 7.2 | 82.3 | 1.743 | 10.0 |
| 3 | 1701.5 | 171.8 | 7.2 | 82.1 | 1.769 | 9.8 |
| 4 | 1706.9 | 172.6 | 7.3 | 81.6 | 1.508 | 10.0 |
| YEAR | 1693.4 | 170.5 | 7.2 | 82.1 | 1.642 | 9.9 |
| % change from '84 | 3.3 | 4.3 | -3.6 | .5 | -6.1 | -3.6 |
| 1986:1 | 1713.8 | 172.3 | 7.3 | 81.6 | 1.529 | 9.8 |
| 2 | 1727.4 | 173.8 | 7.3 | 81.8 | 1.643 | 9.8 |
| 3 | 1741.9 | 177.1 | 7.2 | 81.5 | 1.676 | 9.8 |
| 4 | 1758.8 | 181.7 | 7.1 | 82.0 | 1.664 | 10.0 |
| YEAR | 1735.5 | 176.2 | 7.3 | 81.7 | 1.628 | 9.9 |
| % change from '85 | 2.5 | 3.4 | .1 | -.5 | -.9 | -.3 |

*Historical data.

# 1.00 DETAILED FORECASTS

## 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

**Defense and durable goods** lead the economy through the first quarter turn with flying colors. While **nondefense** orders bring up the rear, don´t count them out of the race. They dropped back 11.5% over the December stumble of 2.5%. Such lagging doesn´t tell it all since the Commerce Department **only reports domestic orders.** Companies are buying about 60% of capital equipment abroad--outlays not reported in the durable orders statistics. **Imported** capital goods are picking up speed from all indications in the preliminary data.

**Retail sales and mining** will turn in a flat performance this year. Not bad, just no better than last year. Mixed reviews, however, for **farm machinery and equipment, oil production and energy** exploration.

Now that last year´s results are all in, it´s apparent at **KEDI** that Uncle Sam successfully dodged a **mini-recession.** **KEDI** didn´t predict it while other sooth-sayers did.

The economy is off and running with no shortage of breath for this year. There are a couple of dark clouds hanging over the economy´s parade: **capital goods** won´t match 1984´s boom; **consumer spending** will just coast along; and **inventories** won´t mount as fast as last year.

Look for good performance in the months ahead for:

**January ´85 compared to December ´84**

| | January ´85 | December ´84 |
|---|---|---|
| Index of Industrial Production, % change | +.4 | +.5 |
| Index of Purchasing Managers, level | 52.5 | 50.9 |
| Orders for Durable Goods, % change | +3.8 | +1.9 |
| Retail Sales, bil. $, seasonally adjusted | 110.7 | 109.9 |
| Capacity Utilization, percent | 81.9 | 81.7 |
| Steel Production, mil. tons | 6.983 | 6.013 |

TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| 1983* | 1534.7 | 1009.2 | 221.0 | 12.6 | 116.2 | 175.7 |
| 1984:1* | 1610.9 | 1044.1 | 285.5 | -8.3 | 112.2 | 177.3 |
| 2* | 1638.8 | 1064.2 | 283.9 | -11.4 | 123.2 | 178.9 |
| 3* | 1645.2 | 1065.9 | 300.2 | -27.0 | 125.0 | 181.1 |
| 4 | 1664.8 | 1075.4 | 288.8 | -10.2 | 129.6 | 181.2 |
| YEAR | 1639.9 | 1062.4 | 289.6 | -14.3 | 122.5 | 179.7 |
| % change from 83 | 6.9 | 5.3 | 31.0 | --- | 5.4 | 2.3 |
| 1985:1 | 1676.1 | 1088.7 | 295.6 | -23.0 | 131.1 | 183.7 |
| 2 | 1688.9 | 1097.0 | 298.9 | -25.6 | 133.2 | 185.4 |
| 3 | 1701.5 | 1104.9 | 301.1 | -26.0 | 134.8 | 186.7 |
| 4 | 1706.9 | 1108.0 | 298.3 | -25.2 | 137.2 | 188.6 |
| YEAR | 1693.4 | 1099.7 | 298.5 | -25.0 | 134.1 | 186.1 |
| % change from 84 | 3.3 | 3.5 | 3.1 | --- | 9.5 | 3.6 |
| 1986:1 | 1713.8 | 1110.6 | 299.7 | -24.6 | 138.0 | 190.1 |
| 2 | 1727.4 | 1116.5 | 302.5 | -25.1 | 140.6 | 192.9 |
| 3 | 1741.9 | 1120.8 | 305.9 | -23.1 | 143.6 | 194.7 |
| 4 | 1758.8 | 1124.8 | 313.4 | -20.2 | 144.7 | 196.1 |
| YEAR | 1735.5 | 1118.3 | 305.4 | -23.3 | 141.7 | 193.3 |
| % change from 85 | 2.5 | 1.7 | 2.3 | --- | 5.7 | 3.9 |

---

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

"The operation was a success--but the patient died," when he got his bill. Cost of medical, hospital and related **wellness** services will head **CPIs most wanted list** of inflation offenders along with **hotels, repairs, restaurants, transportation, legal and banking fees.** The jury finds the following **not guilty**: food, textiles, housing, gasoline and heating oil. Other contributors to inflationary delinquency are: electricity, rents, telephone, drugs and toiletries. **Do not expect further increases in car prices.**

**CPI increases over previous year**

| | |
|---|---|
| 1984 | +4.2% |
| 1985 | +3.4% |
| 1986 | +4.5% |

**Producer Prices** are on good behavior for the next 3-6 months. Price of crude goods remains flat. **Agriculture** is in stable condition along with **imported raw materials. Intermediate goods** will edge up slightly in the second half while **prices of finished goods** go up moderately. Most of these price increases will occur late in the second half. **Durable finished goods** will lead the pack in increases followed by machinery, electronic and communication equipment. **KEDI** stands pat on its baseline forecast that **producer** prices, in general, will only increase moderately through this year and next. No significant increases are expected before late 1986 and into 1987.

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes---* | | *-------Price deflators-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross nat'l prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1972= 100 | 1972= 100 | 1972= 100 | 1972= 100 |
| Year & Qtr. | | | | | | |
| **1983*** | 298.4 | 285.2 | 215.2 | 213.6 | 234.9 | 236.7 |
| **1984:1*** | 306.4 | 290.6 | 220.6 | 218.0 | 238.5 | 246.4 |
| 2* | 309.7 | 281.4 | 222.4 | 219.2 | 240.6 | 250.1 |
| 3* | 313.1 | 291.4 | 224.6 | 221.5 | 241.6 | 253.4 |
| 4 | 314.9 | 292.2 | 226.1 | 222.9 | 244.1 | 256.8 |
| YEAR | 311.0 | 288.9 | 223.4 | 220.4 | 241.2 | 251.6 |
| % change from '83 | 4.2 | 1.2 | 3.7 | 3.1 | 2.7 | 6.2 |
| **1985:1** | 317.3 | 294.2 | 227.8 | 225.0 | 245.4 | 258.0 |
| 2 | 320.0 | 297.3 | 229.4 | 226.9 | 247.1 | 259.8 |
| 3 | 323.2 | 300.8 | 232.7 | 230.7 | 249.9 | 262.0 |
| 4 | 327.1 | 305.8 | 235.9 | 233.7 | 252.6 | 263.3 |
| YEAR | 321.9 | 299.5 | 231.5 | 229.1 | 248.8 | 260.8 |
| % change from '84 | 3.4 | 3.7 | 3.6 | 3.9 | 3.1 | 3.6 |
| **1986:1** | 330.6 | 309.1 | 238.4 | 236.6 | 253.9 | 265.9 |
| 2 | 333.6 | 314.2 | 240.8 | 239.3 | 256.1 | 269.0 |
| 3 | 338.4 | 318.9 | 244.5 | 244.7 | 258.9 | 270.0 |
| 4 | 344.1 | 323.8 | 246.1 | 246.3 | 261.9 | 271.6 |
| YEAR | 336.7 | 316.6 | 242.5 | 241.7 | 257.7 | 269.1 |
| % change from '85 | 4.5 | 5.8 | 4.7 | 5.5 | 3.6 | 3.2 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

**The buck stops here--or does it? KEDI** says that the rate of exchange for the greenback will not go up as fast as previous data has shown in light of the recent intervention by the world´s central banks. The dollar will still be strong, but don´t look for a rerun of February when the dollar stormed most castles. The buck will take a break then edge back up to remain **king** of the hill. With the dollars temporary adjustment expect more **corn exports** with fewer imports across the board, **especially** iron ore, copper, aluminum and nonferrous metals.

**KEDI** forecasts the following rate of exchange for $1.00:

| **Currency** | **June 1985** | **Dec. 1985** | **June 1986** | **Dec. 1986** |
|---|---|---|---|---|
| German Mark | 3.22 | 3.34 | 3.41 | 3.48 |
| Pound Sterling | .81 | .79 | .85 | .94 |
| Japanese Yen | 250.24 | 258.16 | 260.42 | 257.51 |
| Swiss Frank | 2.43 | 2.61 | 2.73 | 2.84 |
| French Frank | 9.75 | 10.04 | 10.18 | 10.83 |

For the rest of this year, the dollar will remain stable with **pound sterling and Japanese yen**; increase against the **German Mark** and **Swiss Frank**, and hold the line with the **French Frank.** Next year the French Frank will **deteriorate** steadily. While Japanese Yen is expected to remain firm against the dollar, **pound sterling** will take a bad beating as it falls below the one-to-one level.

Trends over the 1985-1986 period forecast no major increases in the international value of the dollar. It will remain strong, but it won´t soar back into the stratosphere soon.

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1983* | 3304.8 | 2155.9 | 471.6 | -8.3 | 269.7 | 415.8 |
| 1984:1* | 3553.3 | 2276.5 | 623.8 | -51.5 | 267.6 | 436.8 |
| 2* | 3644.7 | 2332.7 | 627.0 | -58.7 | 296.4 | 447.4 |
| 3* | 3694.6 | 2361.4 | 662.8 | -90.6 | 302.0 | 458.9 |
| 4 | 3764.2 | 2397.4 | 634.3 | -49.2 | 316.3 | 465.4 |
| YEAR | 3664.2 | 2342.0 | 637.0 | -62.5 | 295.6 | 452.1 |
| % change from 83 | 10.9 | 8.6 | 35.1 | --- | 9.1 | 8.7 |
| 1985:1 | 3818.2 | 2449.3 | 634.7 | -61.4 | 321.7 | 473.9 |
| 2 | 3874.3 | 2489.5 | 640.2 | -66.2 | 329.1 | 481.7 |
| 3 | 3959.4 | 2549.1 | 654.7 | -70.5 | 336.9 | 489.2 |
| 4 | 4026.6 | 2589.0 | 661.8 | -67.4 | 346.6 | 496.6 |
| YEAR | 3919.6 | 2519.2 | 647.9 | -66.4 | 333.6 | 485.4 |
| % change from 84 | 7.0 | 7.6 | 1.7 | --- | 12.8 | 7.4 |
| 1986:1 | 4085.7 | 2627.5 | 665.9 | -63.6 | 350.4 | 505.5 |
| 2 | 4159.6 | 2682.0 | 658.7 | -60.1 | 360.1 | 518.9 |
| 3 | 4258.9 | 2742.5 | 675.1 | -56.2 | 371.8 | 525.7 |
| 4 | 4328.4 | 2769.9 | 704.2 | -57.3 | 379.0 | 532.6 |
| YEAR | 4208.2 | 2705.5 | 676.0 | -59.3 | 365.3 | 520.7 |
| % change from 85 | 7.4 | 7.4 | 5.2 | --- | 9.5 | 7.3 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

**You can't beat the establishment! Or, can you?** Depends upon who you believe. **KEDI** cautioned readers last month about interpreting unemployment data. It just doesn't tell it like it is. Unemployment figures reported for January went to 7.4% over December's 7.2%. **But, that's a mixed bag of** statistics, since the Labor Department compiles data from two surveys--households and establishment. Households edged up slightly with 118,000 new jobs while **establishment** leaped ahead with 348,000 jobs. **Catch 22**: the unemployment rate is calculated on **household survey data** only, not actual payroll data in the establishment survey. **KEDI** puts more confidence in the **establishment!** So, the bottom line definitely improves **despite** the higher unemployment rate. January's gain of 300,000 jobs is a pat on the back, not a slap in the face.

Don't be surprised if February's statistics show further increases in the unemployment rate. **KEDI** forecasts that the **establishment** data for February and March will bask in the sun with significant improvements in jobs. Expect 210,000 new jobs in February and 200,000 in March! **KEDI** (along with a growing number of economists) puts more credence in the ESTABLISHMENT DATA than in the HOUSEHOLD DATA. So, **KEDI** believes you really can't beat the establishment!

**Unemployment Rate Forecast**

| **Year** | **% Rate** |
|---|---|
| 1985 | 7.2 |
| 1986 | 7.2 |
| 1987 | 7.0 |
| 1988 | 6.7 |

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *------Employment------* | | | Unemployment rate |
|---|---|---|---|---|---|---|
| | | | Total | Agriculture | Non agric. | |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1983* | 223.9 | 111.6 | 100.8 | 3.4 | 97.5 | 9.58 |
| 1984:1* | 235.8 | 112.6 | 103.7 | 3.4 | 100.4 | 7.87 |
| 2* | 236.7 | 113.6 | 105.1 | 3.4 | 101.7 | 7.48 |
| 3* | 237.8 | 113.7 | 105.3 | 3.4 | 101.9 | 7.47 |
| 4 | 238.9 | 114.1 | 105.9 | 3.4 | 102.5 | 7.21 |
| YEAR | 237.3 | 113.5 | 105.0 | 3.4 | 101.6 | 7.51 |
| % change from 83 | 1.3 | 1.7 | 4.2 | --- | 4.2 | -21.7 |
| 1985:1 | 239.8 | 114.7 | 106.4 | 3.4 | 103.0 | 7.27 |
| 2 | 240.9 | 115.6 | 107.3 | 3.4 | 103.9 | 7.19 |
| 3 | 242.3 | 116.3 | 107.9 | 3.4 | 104.5 | 7.20 |
| 4 | 243.7 | 116.9 | 108.3 | 3.4 | 104.9 | 7.28 |
| YEAR | 241.6 | 115.9 | 107.5 | 3.4 | 104.1 | 7.24 |
| % change from 84 | 1.8 | 2.0 | 2.4 | --- | 2.4 | -3.6 |
| 1986:1 | 243.5 | 117.4 | 108.8 | 3.4 | 105.4 | 7.31 |
| 2 | 244.1 | 118.1 | 109.5 | 3.4 | 106.1 | 7.32 |
| 3 | 245.0 | 118.9 | 110.3 | 3.4 | 106.9 | 7.21 |
| 4 | 245.8 | 119.7 | 111.2 | 3.4 | 107.8 | 7.14 |
| YEAR | 244.6 | 118.5 | 110.0 | 3.4 | 106.6 | 7.25 |
| % change from 85 | 1.2 | 2.6 | 2.3 | --- | 2.4 | .1 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

**The housing industry is skating on thin ice while they whistle a happy tune.** Housing starts in January hit a new 20-month high. Increasing by 14.9%, the hyperactive industry looks for a six-month boom, the highest in eight years, but **KEDI** sees caution lights blinking on the horizon:

1. January starts were for **apartments** with **five** or more units. The January sprint shot up 76.1% to an annual rate of 692,000 units. This is second only to the annual rate of 750,000 units in September 1973. The darker side reveals a **decline in single-family houses** and **apartments of 2-4** units. This reinforces the 1985 **KEDI** forecast for less **single-family houses** and less 2-4 unit multifamilies.

2. Mortgage rates have bottomed out! More details about that on page 24.

3. Builders of multifamily units are accelerating starts before tax benefits expire. Changes in the tax code would take away some real estate tax benefits, but they are in proposal stage only and will **not** have any effect this year.

4. January starts were not as high as January 1984. Permits rose 2.3% (annualized at 1.66 million)--not much cause for celebration.

Inventory of unsold single family units grows menacingly, especially in the West and Southern regions. If this glut continues at the January pace, it will lead to a buyer's market.

Jack Carlson, chief economist of the National Association of Realtors, looks for the construction of 1.85 million units this year--up from 1.75 million units for all of 1984. **KEDI** disagrees with Carlson and sticks to the forecast of 1.6 million starts this year.

## TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits author-ized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | Tho. $ | Tho. $ |
| Year & Qtr. | | | | | | |
| 1983* | 1.068 | .635 | .296 | 1.594 | 89.8 | 82.5 |
| 1984:1* | 1.278 | .690 | .298 | 1.809 | 94.7 | 86.7 |
| 2* | 1.134 | .752 | .294 | 1.743 | 99.0 | 87.4 |
| 3* | .960 | .662 | .299 | 1.487 | 97.8 | 87.2 |
| 4 | .955 | .558 | .297 | 1.502 | 95.6 | 85.4 |
| YEAR | 1.082 | .665 | .298 | 1.635 | 96.8 | 86.7 |
| % change from 83 | 1.3 | 4.7 | .7 | 2.6 | 7.8 | 5.1 |
| 1985:1 | .969 | .579 | .278 | 1.377 | 99.4 | 87.3 |
| 2 | 1.088 | .655 | .282 | 1.506 | 100.3 | 88.6 |
| 3 | 1.094 | .675 | .288 | 1.547 | 102.1 | 90.1 |
| 4 | .926 | .582 | .267 | 1.451 | 102.4 | 93.4 |
| YEAR | 1.019 | .623 | .279 | 1.470 | 101.1 | 89.9 |
| % change from 84 | -5.2 | -6.3 | -6.5 | -10.0 | 4.4 | 3.6 |
| 1986:1 | .889 | .640 | .279 | 1.486 | 101.6 | 94.7 |
| 2 | .997 | .646 | .253 | 1.407 | 102.9 | 95.8 |
| 3 | 1.057 | .619 | .268 | 1.594 | 104.1 | 97.4 |
| 4 | 1.069 | .595 | .284 | 1.568 | 107.3 | 99.6 |
| YEAR | 1.003 | .625 | .271 | 1.514 | 104.0 | 96.9 |
| % change from 85 | -1.6 | .3 | -2.9 | 3.0 | 2.8 | 7.8 |

*Historical data. **Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

**Tempers in Detroit hit record RPMs while Reagan bows sayonara to voluntary import quotas.** With the auto industry's record profits of $10 billion last year, don't expect much sympathy from the administration. Washington and Tokyo were eyeball to eyeball in the delicate issue of import quotas of Japanese cars to the U.S. Both capitols were waiting for the other to blink before the voluntary quotas expire at the end of March. The silence was deafening as neither side wanted to make waves on the economic sea of tranquility. Both have much to gain--and much to lose. Obviously, the White House wants Tokyo to import more from the U.S., and Japan wants to sell Uncle Sam more cars, TVs, VCRs and the like. So, both sides bow graciously and sip green tea. In light of President Reagan's track record, and his adament views of **less** governmental involvement in the corporate board rooms, it's not likely the quotas will be renewed. When the quotas expire, expect increased imports from the land of the rising sun. **KEDI** estimates 100,000 more this year and possibly 200,000 next year, not the Chrysler estimate of 650,000.

Forecast data indicates car sales for 1985 will be below the 1984 level. Of the big three, only Chrysler plans to produce less cars. The automakers are backing off from their December forecasts when they planned to produce 2.3 million cars in first quarter, 1985. This is revised down to 2.2 million automobiles.

**Production plans for first quarter 1985.**

(Plan in thousands, percent increases (+) or decreases (-) compared to 4th qtr, 1984 production.)

| | **Plan** | **% change** |
|---|---|---|
| GM | 1330 | + 5.5 |
| Ford | 457 | + 4.1 |
| Chrysler | 331 | - 2.2 |
| AMC | 42 | - 17.3 |
| Honda | 42 | + 38.5 |
| VW | 28 | - 8.7 |
| Totals | 2229 | +3.7 |

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a.** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1983* | 9.2 | 6.8 | 2.4 | 1.4 | 6.7 | 2.5 |
| 1984:1* | 10.6 | 8.3 | 2.3 | 1.6 | 8.0 | 3.0 |
| 2* | 10.6 | 8.2 | 2.4 | 1.3 | 7.9 | 3.2 |
| 3* | 10.0 | 7.3 | 2.7 | 1.1 | 7.6 | 3.4 |
| 4 | 9.8 | 7.1 | 2.7 | 1.3 | 7.7 | 3.5 |
| YEAR | 10.3 | 7.7 | 2.5 | 1.3 | 7.8 | 3.3 |
| % change from 83 | 11.4 | 13.2 | 5.2 | -7.9 | 16.2 | 31.0 |
| 1985:1 | 9.9 | 7.3 | 2.6 | 1.3 | 7.5 | 3.3 |
| 2 | 10.0 | 7.3 | 2.7 | 1.4 | 7.5 | 3.5 |
| 3 | 9.8 | 7.2 | 2.6 | 1.7 | 7.3 | 3.4 |
| 4 | 10.0 | 7.3 | 2.7 | 1.5 | 7.3 | 3.6 |
| YEAR | 9.9 | 7.3 | 2.6 | 1.5 | 7.4 | 3.5 |
| % change from 84 | -3.6 | -4.9 | 4.2 | 15.4 | -6.3 | 4.5 |
| 1986:1 | 9.8 | 7.2 | 2.6 | 1.6 | 7.2 | 3.3 |
| 2 | 9.8 | 7.1 | 2.7 | 1.5 | 7.0 | 3.4 |
| 3 | 9.8 | 7.1 | 2.8 | 1.5 | 7.3 | 3.5 |
| 4 | 10.0 | 7.3 | 2.7 | 1.3 | 7.5 | 3.6 |
| YEAR | 9.9 | 7.2 | 2.7 | 1.3 | 7.3 | 3.5 |
| % change from 85 | -.3 | -1.3 | 3.8 | -13.3 | -2.0 | -.4 |

*Historical data. **End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

**President Reagan hit the ground running in his second term** by making it clear he will wean the calf from Washington. He towed the mark in February when the farmers came calling, he put Detroit on notice about Japanese auto import quotas and he continues to tell it like it is! **Doctor heal thyself** and don´t gaze down the Potomac looking for that pie in the sky. The Chesapeake Bay is no longer afloat with life rafts full of handouts. Even with his firm stance, it will take decades to dig out of the liberal social policies of the last twenty years.

Meanwhile, back on the hill, the Congressional Budget Office remains the **Prophet of Doom** with a budget deficit of $171 billion for 1988. They underestimate the economy´s growth through 1988 and peg interest rates and resulting payments too high. On the other hand, the **Administration** is looking through rose colored glasses.

**Federal Deficit - Bil. US $**

| Fiscal Year | Administration | KEDI |
|---|---|---|
| 1986 | 180 | 181 |
| 1988 | 144 | 148 |
| 1990 | 82 | 118 |

It´s too early to predict the outcome of any legislation on taxes. However, **KEDI** assumes:

1. A tax reform bill will pass this year taking effect next year.

2. There will be no increases in personal income tax and no significant change at various income levels.

3. Corporate taxes will increase by removing exemptions and loop holes that corporations have been jumping through.

TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | FEDERAL | | | STATE AND LOCAL | | |
|---|---|---|---|---|---|---|
| | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1983* | 295.2 | 59.8 | -178.6 | 109.0 | 16.0 | 44.1 |
| 1984:1* | 301.6 | 73.0 | -161.3 | 116.7 | 19.7 | 53.9 |
| 2* | 310.7 | 75.6 | -163.7 | 119.6 | 20.2 | 54.5 |
| 3* | 319.7 | 65.3 | -180.6 | 121.2 | 17.8 | 47.6 |
| 4 | 327.4 | 68.2 | -188.7 | 123.7 | 18.1 | 48.2 |
| YEAR | 314.9 | 70.5 | -173.6 | 120.3 | 19.0 | 51.1 |
| % change from 83 | 6.7 | 17.9 | -2.8 | 10.4 | 18.4 | 15.8 |
| 1985:1 | 331.3 | 69.1 | -185.1 | 126.0 | 19.2 | 50.4 |
| 2 | 340.2 | 72.0 | -189.9 | 129.1 | 20.1 | 52.0 |
| 3 | 346.6 | 74.3 | -186.3 | 133.2 | 21.7 | 53.0 |
| 4 | 353.9 | 77.9 | -185.7 | 136.7 | 22.3 | 52.2 |
| YEAR | 343.0 | 73.3 | -186.8 | 131.3 | 20.8 | 52.7 |
| % change from 84 | 8.9 | 4.0 | 7.6 | 9.1 | 9.6 | 3.0 |
| 1986:1 | 355.7 | 77.8 | -184.3 | 137.8 | 23.1 | 56.1 |
| 2 | 360.8 | 80.4 | -180.7 | 140.3 | 23.4 | 58.0 |
| 3 | 369.5 | 85.1 | -177.1 | 142.8 | 23.5 | 59.4 |
| 4 | 376.7 | 88.9 | -171.6 | 147.9 | 24.5 | 61.3 |
| YEAR | 365.7 | 83.1 | -178.4 | 142.2 | 23.6 | 58.7 |
| % change from 85 | 6.6 | 13.3 | -4.5 | 8.3 | 10.5 | 11.4 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

**Everything´s coming up roses,** in the personal income garden. January´s data confirms it. Personal income rose .5% over December´s .4% resulting in $3,130 billion. Changes in accounting procedures for retirement benefits in the military kept the increase down a little, however, February and the months ahead reflect sunny skys for steady moderate growth.

**Corporate after-tax profits** forecast predicts a 5.5% increase this year over ´84. This is not as rosy as 1984´s profits but still respectable. After-tax profits in 1986 will almost double.

Long Range Earnings Outlook 1985-1990

| **Industry** | **Forecast of Annual Growth** |
|---|---|
| New and High Tech | 16% |
| Service Industries | 14% |
| Transportation | 12% |
| Capital Goods Industries | 10% |
| Financial Services | 10% |
| Basic Industries | 7% |
| Energy Industries | 5% |
| Public Utilities | 4% |

This earnings outlook is in line with **KEDIs** long-term forecast:

* **Fast growth** for high tech and service industries.

* **Average growth** for consumer durables and non-durables as well as capital goods industries.

* **Slow growth** in the basic and basic-related industries.

TABLE 1.60

INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1983* | 2744.2 | 2340.1 | 1984.9 | 127.4 | 118.1 | 354.5 |
| 1984:1* | 2920.2 | 2502.2 | 2113.4 | 150.6 | 152.5 | 366.2 |
| 2* | 2984.6 | 2554.3 | 2159.2 | 150.2 | 144.8 | 370.1 |
| 3* | 3047.3 | 2606.4 | 2191.9 | 141.7 | 164.1 | 369.1 |
| 4 | 3098.9 | 2647.8 | 2227.5 | 143.5 | 165.8 | 369.0 |
| YEAR | 3012.8 | 2577.7 | 2173.0 | 146.5 | 156.8 | 368.6 |
| % change from 83 | 9.8 | 10.2 | 9.5 | 15.0 | 32.8 | 4.0 |
| 1985:1 | 3159.1 | 2701.8 | 2268.1 | 146.0 | 167.4 | 373.6 |
| 2 | 3210.3 | 2741.0 | 2302.3 | 151.1 | 165.8 | 379.4 |
| 3 | 3280.4 | 2800.6 | 2332.1 | 157.2 | 165.2 | 385.8 |
| 4 | 3331.1 | 2840.5 | 2342.2 | 163.9 | 164.3 | 391.4 |
| YEAR | 3245.2 | 2771.0 | 2311.2 | 154.6 | 165.7 | 382.6 |
| % change from 84 | 7.7 | 7.5 | 6.4 | 5.5 | 5.7 | 3.8 |
| 1986:1 | 3374.2 | 2880.7 | 2380.7 | 162.3 | 165.1 | 394.2 |
| 2 | 3439.7 | 2938.6 | 2426.2 | 165.6 | 167.6 | 398.8 |
| 3 | 3515.8 | 3003.5 | 2468.7 | 169.3 | 169.8 | 405.9 |
| 4 | 3558.8 | 3034.2 | 2512.4 | 179.2 | 172.3 | 412.1 |
| YEAR | 3472.1 | 2964.3 | 2447.0 | 169.1 | 168.7 | 402.8 |
| % change from 85 | 7.0 | 7.0 | 5.9 | 9.4 | 1.8 | 5.3 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

The Fed Chairman will not fiddle with his violin so long as it continues to play such sweet music. Paul Volcker confirmed that he has no intentions of loosening up or tightening up the strings on his Stradivarius. That´s not to say he has a deaf ear when he hears sour notes. **KEDI** believes he´ll have to fine tune his violin in the third quarter by tightening a few strings, especially if M1 keeps singing off-key--it has grown above the upper target range. This trend will probably continue for several months. When June starts busting out all over, look for the Fed to tighten the reins on the **inflationary** renegades to slow down the growth of the money supply.

Edward McKelvey, Chief Economist of Morgan Guaranty has stated that the Fed isn´t likely to make any significant changes in its policies. **KEDI** agrees and has been singing that song since January 1984.

### Forecast of Monetary & Credit Indicators

* M1 to grow rapidly through the first half of 1985, then retreat slowly.

* M2 will show continuous growth through 1985 and 1986.

* Consumer credit to slow down this year and next.

* Commerical and industrial loans slowing down in 1985 with stable growth in 1986.

* Mortgages will show moderate increases this year and slow up in 1986.

## TABLE 1.70

## MONEY AND CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm.& indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 509.0 | 2115.9 | 396.1 | 413.7 | 325.5 | 493.4 |
| **1984:1*** | 534.3 | 2216.1 | 402.5 | 428.2 | 349.7 | 502.1 |
| 2* | 543.0 | 2255.2 | 427.6 | 453.2 | 379.5 | 526.7 |
| 3* | 549.1 | 2293.9 | 450.1 | 462.4 | 396.2 | 544.3 |
| 4 | 553.7 | 2345.4 | 470.2 | 470.9 | 416.7 | 552.1 |
| YEAR | 545.0 | 2277.7 | 470.2 | 470.9 | 416.7 | 552.1 |
| % change from 83 | 7.1 | 7.6 | 18.7 | 13.8 | 28.0 | 11.8 |
| **1985:1** | 566.9 | 2402.4 | 477.5 | 480.8 | 419.5 | 562.8 |
| 2 | 573.8 | 2459.9 | 482.4 | 488.4 | 425.7 | 569.6 |
| 3 | 570.9 | 2509.0 | 487.5 | 495.6 | 431.4 | 579.8 |
| 4 | 587.4 | 2556.7 | 493.7 | 498.3 | 439.2 | 585.9 |
| YEAR | 577.0 | 2482.0 | 493.7 | 498.3 | 439.2 | 585.9 |
| % change from 84 | 5.9 | 9.0 | 5.0 | 5.8 | 5.4 | 6.1 |
| **1986:1** | 592.6 | 2631.3 | 497.5 | 503.2 | 445.1 | 589.7 |
| 2 | 598.2 | 2694.2 | 503.2 | 507.6 | 450.6 | 598.6 |
| 3 | 609.3 | 2758.2 | 509.4 | 512.3 | 456.3 | 607.2 |
| 4 | 615.5 | 2829.3 | 517.6 | 526.4 | 461.8 | 614.8 |
| YEAR | 603.9 | 2728.3 | 517.6 | 526.4 | 461.8 | 614.8 |
| % change from 85 | 4.7 | 9.8 | 4.8 | 5.6 | 5.1 | 4.9 |

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

**Interest rates are coming out of hibernation looking bullish.** Second half ´85 interest rates have been adjusted upward by **KEDI**. Not significantly, but an indication of what´s waiting in the wings. **KEDIs** been saying for months (and recent developments confirm) that rates are at rock bottom. Paul Volker, Fed Chairman is singing the same tune of no more easing, but no tightening--at least not now. **KEDI** agrees with Richard Mount of Merrill Lynch that the decline in just about over. Analysts at EF Hutton see interest rates stable for the next few months as well.

**Mortgage rates** have landed at the bottom of the hill after a long steady slide over the last eight months. The **conventional** rate was 12.9% in February while the **adjustable** rate was 10.8%. That´s the end of the road for those rates. Mortgage rates will dust themselves off after the long tumble and start climbing back up the hill. It will be a slow journey with small steps--no leaps! **KEDI** is not as pessimistic as economists at Merrill Lynch who expect **14% conventional mortgage rates** by the end of this year with **12.5% adjustable mortgages.** That´s on the high side according to **KEDI** who sees 13.5% for conventionals and 12% adjustables.

Edward Yardeni, Senior VP at Prudential-Bache Securities believes mortgage rates will remain flat for the next couple of months only to drop lower. NO WAY!

For the **securities markets, KEDI** has adjusted up some. The base line remains firm, but a long-term secular **bull market** will persist. **Stocks and Bonds Markets** are in for a long smooth ride through the balance of this year--nothing to write home about.

## TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg. rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg. |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| **1983*** | 8.61 | 10.79 | 13.43 | 12.05 | 11.34 | 160.41 |
| **1984:1*** | 9.17 | 11.07 | 13.57 | 12.28 | 12.16 | 160.50 |
| 2* | 9.81 | 12.31 | 13.98 | 12.97 | 12.68 | 155.76 |
| 3* | 10.32 | 12.99 | 14.45 | 12.99 | 12.83 | 160.54 |
| 4 | 8.67 | 11.80 | 13.34 | 12.32 | 11.72 | 166.40 |
| YEAR | 9.49 | 12.04 | 13.84 | 12.64 | 12.35 | 160.80 |
| % change from 83 | 10.2 | 11.6 | 3.0 | 4.9 | 8.9 | .2 |
| **1985:1** | 8.02 | 10.69 | 13.25 | 11.93 | 11.43 | 171.47 |
| 2 | 8.49 | 10.87 | 13.04 | 12.04 | 11.68 | 169.85 |
| 3 | 9.06 | 11.16 | 13.18 | 12.18 | 11.97 | 166.52 |
| 4 | 9.78 | 11.47 | 13.51 | 12.32 | 12.20 | 168.41 |
| YEAR | 8.84 | 11.05 | 13.25 | 12.15 | 11.82 | 169.06 |
| % change from 84 | -6.9 | -8.2 | -4.3 | -4.9 | -4.3 | 5.1 |
| **1986:1** | 10.36 | 11.87 | 13.70 | 12.25 | 12.06 | 159.45 |
| 2 | 10.08 | 11.81 | 13.56 | 12.48 | 12.14 | 163.49 |
| 3 | 9.65 | 10.92 | 13.28 | 12.15 | 12.36 | 168.17 |
| 4 | 8.43 | 10.35 | 13.37 | 11.67 | 12.54 | 172.28 |
| YEAR | 9.63 | 11.24 | 13.48 | 12.14 | 12.28 | 165.84 |
| % change from 85 | 8.9 | 1.7 | 1.7 | .1 | 3.9 | -1.9 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

Last month´s issue dealt with one of the characteristics of the **Kent Model**: orientation on the future--not the past. Just to re-emphasize, the **Kent Model** has not relied on historical data for it´s forecasts since 1976 while most other economic and business models still rely on projecting historical data into the future. Our economy doesn´t behave that way, nor does **KEDI**.

## 5.2 KEDI PREPARES FORECASTS--NOT PROJECTIONS.

The key elements of the **Kent Model** are:

* Data Base
* Equations
* Judgment

Forecasts result from blending all three ingredients.

The data base is the scorekeeper, statistician, historian and archivest of days gone by. It can tell you all about the earned run averages of everyone who ever made it to the big leagues. But, it has tunnel vision. It can only see into the past--not the future. It has no way of knowing who will be tomorrow´s superstars.

Equations are true to their master. They equate anything they´re told to equate. They´ll subtract, add, divide, multiply or accumulate just about anything. So, equations are the heart of forecasting--the right equations, that is! Remember the old saying in computer´s infancy, "garbage in, garbage out?" Equations must be meaningful to have meaning.

So, what does **KEDI** do with those thousands of equations and that voluminous data base before and after the computer finishes it´s tireless task? We add the missing ingredient **judgment**.

At **KEDI** the human element, the forecaster´s judgment, is an essential factor in the ultimate reliability of our forecast.

## THE KENT ECONOMIC FORECASTING SYSTEM

The forecaster is the **master chef**, if you will, who watches the pot boil. He has learned, and learned well, the difference between forecasting and projecting. They are as different as the night sky is from daylight.

**What is a projection? It is merely the mechanical part** of the forecasting process. With the aid of a computer, calculator or pencil and paper, equations are solved. No judgment is stirred into that kettle of fish. Just a "number crunching" process. So, the **data base** and the **equations** work together like peas in a pod. But it´s hard to swallow without the **chef´s touch.**

**What, then, is a forecast?** The Forecaster carefully blends all ingredients from start to finish. He selects those data that are needed representing outside factors. At **KEDI** we call them **exogeneous variable.** That´s just a fancy term for future crops, expected Federal Reserve Policy, weighted price of oil, and other **herbs & spices** covered in the **ASSUMPTIONS** on page four. Figure 5 below outlines the forecasting process.

**FORECASTING PROCESS**

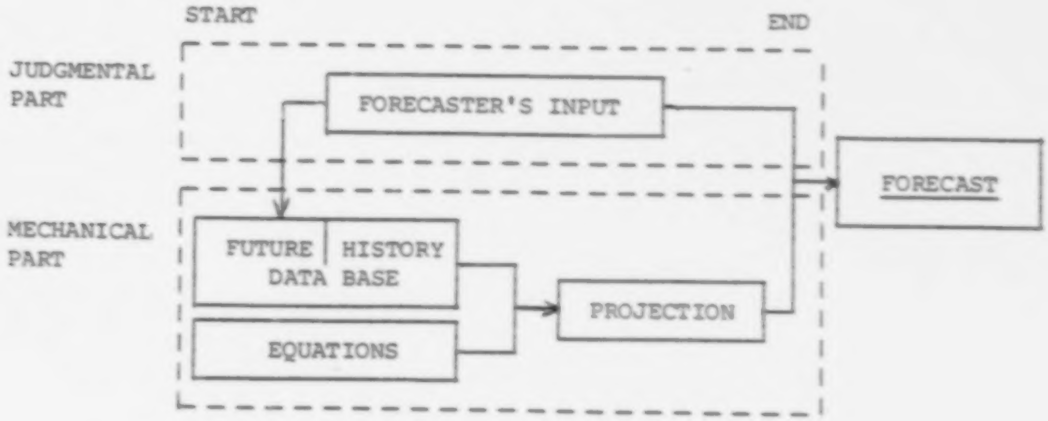

Figure 5.

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, **Housing Starts in 1984** has been selected for comparison. The actual figure is the February 1985 estimate of the U. S. Department of Commerce for housing starts in 1984. Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS

(Housing Starts, 1984, in thousand units)

**Actual figure: 1747**

| **Forecaster (and page in source)** | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Nat'l Securities & Research Corp, p.9 | 11/28/83 | 1700 | -2.7 |
| A. George Gols, Arthur D Little Inc, p.11 | 12/83 | 1800 | 3.0 |
| Economics Dept.,U.S.Trust Co of NY,p.11 | 12/83 | 1750 | .2 |
| C.Myers, Merchants Bank, Aurora, p. 13 | 12/1/83 | 1760 | .7 |
| United Business Service, p. 15 | 12/12/83 | 1700 | -2.7 |
| J. A. Livingston, **The Philadelphia Inquirer**, p. 15 | 12/25/83 | 1702 | -2.6 |
| L. D. Reece, Cities Service, p. 17 | 1/84 | 1750 | .2 |
| Economics Depart, Bankers Trust, p. 19 | 1/6/84 | 1660 | -5.0 |
| First Interstate Bank of Calif., p.20 | 11/4/83 | 1630 | -6.7 |
| Georgia State University, p. 21 | 11/83 | 1566 | -10.4 |
| Chemical Bank, p. 22 | 11/4/83 | 1860 | 6.5 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 1700 | -2.7 |
| American Statistical Assn & National Bureau of Economic Research, p. 25 | 12/83 | 1720 | -1.5 |
| Citicorp Information Service, p. 27 | 12/1/83 | 1800 | 3.0 |
| UCLA Business Forecasting Project, p.26 | 12/1/83 | 1737 | 3.0 |
| Alex A. Burkholder, WGN Continental Broadcasting Company, p. 30 | 12/15/83 | 1625 | -7.0 |
| AmeriTrust, p. 31 | 12/19/83 | 1700 | -2.7 |
| U.S.Chamber of Commerce, p. 33 | 12/21/83 | 1800 | 3.0 |
| Fidelity Bank, p. 32 | 12/19/83 | 1710 | -2.1 |
| Chase Econometrics, p. 35 | 12/24/83 | 1700 | -2.1 |
| Data Resources, Inc, p. 36 | 12/24/83 | 1776 | 1.7 |
| Journal of Bus. Forecasting, Consensus Forecast from Quarterly Survey, p. 37 | 1/84 | 1700 | -2.7 |
| Mellon Bank, p. 28. | 1/84 | 1654 | -5.3 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **1757** | **.6** |
| Lehman Bros Kuhn Loeb, Inc, p. 40 | 1/5/84 | 1709 | -2.2 |
| The First Nat'l Bank of Chicago, p.41 | 1/6-10/84 | 1570 | -10.1 |
| The Equitable Life Assurance Society of the United States, p. 42 | 1/9/84 | 1730 | -1.0 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 1711 | -2.1 |
| Standard & Poor's Corp, p. 44 | 1/12/84 | 1729 | -1.0 |
| Armco, Inc, p. 45 | 1/18/84 | 1738 | -.5 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 **Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 **Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 **Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 **Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| 1.30 **Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:**Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:**Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

B4950-1

**KENT ECONOMIC AND DEVELOPMENT INSTITUTE, INC.**

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

APRIL 1, 1985

Prepared by the staff of
Kent Economic and Development Institute, Inc.
P.O. Box 99
Tallmadge, Ohio 44278
(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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## CONTENTS

Page

**0.00 Introduction**

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

**1.00 Detailed Forecasts**

1.10 Real Growth 6
1.20 Prices and Nominal GNP
  1.21 Prices 8
  1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
  1.41 Housing 14
  1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24

**2.00 The Kent Economic Forecasting System (continued)** 26

**3.00 Comparisons of Accuracy of Predictions** 28

**4.00 Historical Data Sources** 29

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29

**SOURCES:**

U.S.Department of Commerce third estimates of 1984:4 National Income and Product data, March 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, March 1985.

The lastest available data on prices, employment, industrial, and financial developments.

## 0:00 INTRODUCTION

## 0:01 EXECUTIVE SUMMARY

### Highlights

Budget boondoggling continues as Congress tries to slice up the budget pie. They keep forgetting the best ingredient of all--less spending.

### Real Growth

Beware of mad dogs! Commerce Department should leash and muzzle "flash estimates" over at their dog pound.

### Prices

CPI learning to "heel" better in first quarter but not out of the "dog house" yet. PPI off slightly.

### Employment & Labor

Unemployment lines shorter for services, longer for most others as labor retraining eases the picture over the long run.

### Housing

The honeymoon's over for housing starts and the bride's left with an 11% drop in February starts.

### Automobiles

Cars coast through second quarter as demand runs out of gas.

### Budgets

Federal deficit for FY 1990 will be under $100 billion as state and local budgets absorb more burden.

### Income

"Blue skies smiling at me...nothing but blue skies...do I see."

### Money & Credit

DO NOT DISTURB sign hangs serenely on Maestro Volcker's door as he listens approvingly to sweet music.

### Interest Rates, Yields & Security Prices

Interest rates are at the training camp expecting to gain a few yards in the third and fourth quarters of the game.

## 0.02 OVERVIEW

### A Slice of the Budget Pie

Talk! Talk! Talk! Budget boondoggling continues along predictable political paths. Every elected official (and too many who aren't) jump on the soap box and lecture us about the evils of cutting social programs, the power of the Pentagon, or, any other bee in their bonnet at the time, depending upon who's listening. Everyone wants a slice of that good old All-American Budget Pie. We expect the rhetoricians every year about this time, so the April fools try to feed us the same hackneyed drivel they dish out year, after year, after year. But no one seems to be listening much to that old tune; everyone has the federal deficit on the brain. So, let's find out how tc bake budget pie.

There are two main ingredients in the budget pie that will have long-term, lasting effects on the size of the federal deficit:

* **DEBT SERVICE.** This is a shify ingredient! It slides up and down with interest rates. There is no way to budget exactly how much it will cost to service the federal debt. But one thing is certain: when interest rates drop in 1986 and the years thereafter, the burden of the federal deficit will decline rapidly.

* **EXPENDITURES.** Listen up, Tip O'Neill, and the rest of you up there on the hill! The only way to **reduce** the deficit is by cutting expenditures. The budget must **not** be the tail wagging the dog. INCREASING THE GOVERNMENTS SHARE OF CONTROLLING EXPENDITURES (through higher taxes) RESTRICTS THE FREEDOM OF EVERY MAN, WOMAN AND CHILD. And that!, whether we like it or not, is spelled **s.o.c.i.a.l.i.s.m!**

So, the main ingredient in the budget pie should be **LESS.** Pure and simple, plain old less spending, less in hand-outs, and less control from Washington on how we are to enjoy our pie--our way.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

| Indicator | Unit | 1985 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|
| Gross national product | bil.72$ | 1692.9 | 1780.6 | 1867.8 | 1938.8 |
| | % change | 3.3 | 2.6 | 4.9 | 3.8 |
| Index of industrial production | 1967=100 | 168.9 | 187.1 | 199.1 | 210.0 |
| | % change | 3.4 | 7.1 | 6.4 | 5.6 |
| Capacity utilization | % | 81.9 | 82.3 | 82.9 | 83.2 |
| | % change | .2 | 1.0 | .8 | .4 |
| Unemployment rate | % | 7.27 | 7.03 | 6.81 | 6.77 |
| | % change | -3.2 | -3.1 | -3.2 | -.6 |
| Private housing starts | mil. units | 1.653 | 1.886 | 2.084 | 2.170 |
| | % change | -5.4 | 15.4 | 10.5 | 1.1 |
| Car sales | mil. units | 10.1 | 10.6 | 11.5 | 11.4 |
| | % change | 1.7 | 7.3 | 8.8 | -1.1 |
| Implicit GNP price deflator | 1972=100 | 231.5 | 253.6 | 266.5 | 280.4 |
| | & change | 3.6 | 4.6 | 5.1 | 5.2 |
| Consumer price index | 1967=100 | 321.5 | 352.4 | 370.0 | 388.9 |
| | & change | 3.3 | 4.8 | 5.0 | 5.1 |
| Producer price index (finished goods) | 1967=100 | 295.9 | 331.5 | 349.4 | 366.5 |
| | % change | 2.4 | 6.0 | 5.4 | 4.9 |
| Federal deficit | bil. $ | -193.0 | -160.2 | -131.4 | -126.5 |
| | % change | 9.8 | 11.2 | -18.0 | -3.7 |
| Personal income | bil. $ | 3250.8 | 3780.9 | 4147.6 | 4458.7 |
| | % change | 7.4 | 8.8 | 9.7 | 7.5 |
| Prime rate | % | 10.94 | 10.71 | 10.90 | 11.42 |
| | % change | -9.1 | -4.7 | 1.8 | 4.8 |
| Mortgage rate | % | 13.36 | 13.19 | 13.51 | 13.02 |
| | % change | - 3.5 | -1.9 | -2.4 | -3.6 |
| Currency plus demand deposits | bil. $ | 576.3 | 634.7 | 671.1 | 711.7 |
| | % change | 5.7 | 5.2 | 7.0 | 4.8 |
| Commercial and industrial loans | bil. $ | 498.4 | 558.3 | 596.3 | 626.1 |
| | % change | 5.9 | 6.1 | 6.8 | 5.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged:

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the April 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more sustainable level in 1987.

## TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unem- ploym't rate | Capac. util'n rate | Pvt. hous'g starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1967=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| **1983*** | 1534.7 | 147.6 | 9.6 | 72.5 | 1.703 | 9.2 |
| **1984:1*** | 1610.9 | 159.8 | 7.9 | 80.7 | 1.968 | 10.6 |
| 2* | 1638.8 | 163.1 | 7.5 | 81.8 | 1.886 | 10.6 |
| 3* | 1645.2 | 165.6 | 7.5 | 82.5 | 1.622 | 10.0 |
| 4 | 1662.4 | 164.7 | 7.2 | 81.6 | 1.513 | 9.8 |
| YEAR | 1639.3 | 163.3 | 7.5 | 81.7 | 1.747 | 10.3 |
| **% change from '83** | 6.8 | 10.7 | -21.7 | 11.3 | 2.6 | 11.4 |
| **1985:1** | 1673.8 | 165.4 | 7.3 | 81.9 | 1.554 | 10.5 |
| 2 | 1687.6 | 168.0 | 7.3 | 82.0 | 1.753 | 10.1 |
| 3 | 1701.4 | 170.3 | 7.2 | 81.9 | 1.777 | 9.9 |
| 4 | 1708.9 | 171.9 | 7.3 | 81.6 | 1.526 | 10.0 |
| YEAR | 1692.9 | 168.9 | 7.3 | 81.9 | 1.653 | 10.1 |
| **% change from '84** | 3.3 | 3.4 | -3.2 | .2 | -5.4 | -1.7 |
| **1986:1** | 1713.7 | 172.6 | 7.3 | 81.4 | 1.529 | 9.8 |
| 2 | 1727.3 | 173.0 | 7.3 | 81.2 | 1.641 | 9.8 |
| 3 | 1742.1 | 175.0 | 7.2 | 81.5 | 1.700 | 9.9 |
| 4 | 1758.9 | 178.2 | 7.1 | 82.0 | 1.667 | 10.1 |
| YEAR | 1735.5 | 174.7 | 7.3 | 81.5 | 1.634 | 9.9 |
| **% change from '85** | 2.5 | 3.4 | -.1 | -.1 | -1.0 | -2.0 |

*Historical data.

## 1.00 DETAILED FORECASTS

## 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

**Beware of mad dogs!** Commerce Department should leash and muzzle "flash estimates" because of the historically inaccurate nature of his bark. Then, Commerce should take a healthy dose of patience and wait for reliable hard data on end-of-the-quarter results. Instead, they let ole "flash estimate" loose barking a prognosis before the doctor has had a chance to diagnose the patient.

On the brighter side, **reliable** data from first quarter shows GNP growing at a steady, moderate rate of 3%. This pace will take us through 1986 as well. So, here's what the first quarter looked like:

* Manufacturing slowed slightly because of temporary high inventories.

* Consumer demand remained strong. Retail sales gained for durables, nondurables, and services.

* No slowdown in economic activity in spite of "flash estimate's" mad raving.

Looking ahead, three strong indicators demonstrate continued strength through the next six months:

1. More orders for durables (civilian goods). With an inventory adjustment under it's belt, manufacturing is in better balance to continue steady growth.

2. Increased construction spending. Data points to a 5% growth this year over last.

3. Higher production of defense goods.

## TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| 1983* | 1534.7 | 1009.2 | 221.0 | 12.6 | 116.2 | 175.7 |
| 1984:1* | 1610.9 | 1044.1 | 285.5 | -8.3 | 112.2 | 177.3 |
| 2* | 1638.8 | 1064.2 | 283.9 | -11.4 | 123.2 | 178.9 |
| 3* | 1645.2 | 1065.9 | 300.2 | -27.0 | 125.0 | 181.1 |
| 4* | 1662.4 | 1075.4 | 288.9 | -13.4 | 129.6 | 180.9 |
| YEAR | 1639.3 | 1062.4 | 289.7 | -15.0 | 122.5 | 179.6 |
| % change from '83 | 6.8 | 5.3 | 31.1 | --- | 5.4 | 2.2 |
| 1985:1 | 1673.8 | 1085.9 | 294.7 | -21.2 | 131.2 | 183.2 |
| 2 | 1687.6 | 1096.2 | 298.0 | -24.7 | 133.2 | 184.9 |
| 3 | 1701.4 | 1103.7 | 300.2 | -24.2 | 134.7 | 187.0 |
| 4 | 1708.9 | 1108.6 | 297.6 | -23.0 | 136.8 | 188.9 |
| YEAR | 1692.9 | 1098.6 | 297.6 | -23.3 | 134.0 | 186.0 |
| % change from '84 | 3.3 | 3.4 | 2.7 | --- | 9.4 | 3.6 |
| 1986:1 | 1713.7 | 1109.1 | 297.1 | -20.1 | 137.6 | 190.0 |
| 2 | 1727.3 | 1115.9 | 300.4 | -21.0 | 139.4 | 192.6 |
| 3 | 1742.1 | 1116.9 | 305.8 | -19.2 | 143.7 | 194.9 |
| 4 | 1758.9 | 1121.6 | 313.6 | -18.3 | 145.8 | 196.8 |
| YEAR | 1735.5 | 1115.9 | 304.2 | -19.7 | 141.6 | 193.6 |
| % change from '85 | 2.5 | 1.6 | 2.2 | --- | 5.7 | 4.1 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

Maybe you **can** teach old dogs new tricks. Looks like **CPI** learned to "heel" better in the first quarter with only marginal increases overall. They still carry the burden of guilt for inflationary pressure and **KEDI** keeps them in the "bad boy" doghouse for a few more months of obedience training.

CPI would be running loose like a stray dog if you believe ole **flash estimate's** of 5.4% rise. **KEDI** buys 3.0% as realistic--no more.

Producer Prices off slightly as crude goods dropped nearly 2%, while capital equipment prices rose a meager .5%. So, where did Commerce find it's 5.4% increase being barked by stray dogs over at the Commerce dog pound? Official GNP price deflator does not express changes in price levels:

* Commerce Department GNP price deflator does not account for prices of imported goods and services. The only imported goods prices included are those lower in price than corresponding domestic goods making the implicit GNP price deflators higher than the actual price of final goods and services.

* The implicit GNP price deflator accounts for prices of final goods and services--not prices of intermediate goods and services. This leaves about one half of all goods and services produced out of the GNP price deflator. Not included are prices of crude materials, semi-finished goods, and many finished products. These prices are stable, or increasing only marginally right now.

* By putting together the prices of final and intermediate goods, as well as import prices, the rate of inflation for first quarter is running 2-3%, annualized, which is not the least bit threathening.

Hush, puppy!

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes---* | | *-------Price deflators-------* | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross nat'l prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1972= 100 | 1972= 100 | 1972= 100 | 1972= 100 |
| Year & Qtr. | | | | | | |
| **1983*** | 298.4 | 285.2 | 215.2 | 213.6 | 234.9 | 236.7 |
| **1984:1*** | 306.4 | 290.6 | 220.6 | 218.0 | 238.5 | 246.4 |
| 2* | 309.7 | 281.4 | 222.4 | 219.2 | 240.6 | 250.1 |
| 3* | 313.1 | 291.4 | 224.6 | 221.5 | 241.6 | 253.4 |
| 4* | 315.5 | 292.2 | 226.1 | 222.8 | 243.6 | 256.9 |
| YEAR | 311.1 | 288.9 | 223.4 | 220.4 | 241.1 | 251.7 |
| % change from '83 | 4.0 | 1.2 | 3.7 | 3.1 | 2.6 | 6.3 |
| **1985:1** | 317.0 | 292.7 | 227.8 | 224.7 | 245.4 | 258.0 |
| 2 | 319.7 | 293.6 | 229.5 | 227.0 | 247.2 | 259.7 |
| 3 | 322.4 | 297.2 | 232.7 | 230.6 | 249.9 | 262.1 |
| 4 | 326.7 | 300.1 | 235.8 | 233.2 | 252.8 | 263.0 |
| YEAR | 321.5 | 295.9 | 231.5 | 229.0 | 248.8 | 260.7 |
| % change from '84 | 3.3 | 2.4 | 3.6 | 3.9 | 3.1 | 3.6 |
| **1986:1** | 329.5 | 304.0 | 238.3 | 236.3 | 254.0 | 266.1 |
| 2 | 333.0 | 309.3 | 240.5 | 239.8 | 256.3 | 269.2 |
| 3 | 338.5 | 315.9 | 244.5 | 245.0 | 259.1 | 270.1 |
| 4 | 344.2 | 321.7 | 246.3 | 245.9 | 262.1 | 271.8 |
| YEAR | 336.3 | 312.7 | 242.4 | 241.8 | 257.9 | 269.3 |
| % change from '85 | 4.6 | 5.7 | 4.7 | 5.6 | 3.7 | 3.3 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

**KEDI** sees promising signs in the foreign trade imbalance see-saw battle. Japanese Prime Minister Nakasoni watches his Sony while he bones up on "Engreesh," hoping to hoodwink the Gipper into buying half a million more puddle jumpers each year. Still, the gates to the Imperial Palace remain closed to MADE IN USA labels...So sorry, to make wave on sea of calm...but the high seas, airways and highways will become two-way traffic between US and Japan--and soon--or the Japanese are in for an economic eye-opener, the likes of which green tea and bowing won't cure. They have kept the Yankee at arm's length too long. But now, we will have our pound of flesh on the Ginza on way or another. Either we trade openly and equally in the world marketplace, or speak sayonara for lack of good faith. Reagan gave Nakasoni every opportunity with the auto imports quotas; all he got was salt rubbed in the wounds. So now, Congress has blood in it's eye with no intentions of turning the other cheek. When (and it's only a matter of time) the US starts to legislate Japan out of the auto showrooms and electronics warehouses across this country, it will have a domino effect felt 'round the world. Our western trading partners will jump at the chance to legislate economic sanctions against the Japanese as well.

Forecast data shows that negative net exports have already peaked giving the economy a more stable growing position. Once we square our gripes with the Japanese, foreign trade will be in good health, but not before 1987. It's going to take a long recuperative period to gain our equilibrium.

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1983* | 3304.8 | 2155.9 | 471.6 | -8.3 | 269.7 | 415.8 |
| 1984:1* | 3553.3 | 2276.5 | 623.8 | -51.5 | 267.6 | 436.8 |
| 2* | 3644.7 | 2332.7 | 627.0 | -58.7 | 296.4 | 447.4 |
| 3* | 3694.6 | 2361.4 | 662.8 | -90.6 | 302.0 | 458.9 |
| 4* | 3758.7 | 2396.5 | 637.8 | -56.0 | 315.7 | 464.8 |
| YEAR | 3662.8 | 2341.8 | 637.9 | -64.2 | 295.4 | 452.0 |
| % change from '83 | 10.8 | 8.6 | 35.3 | --- | 9.5 | 8.7 |
| 1985:1 | 3812.9 | 2444.0 | 635.5 | -61.1 | 322.0 | 472.5 |
| 2 | 3873.0 | 2488.2 | 641.3 | -65.7 | 329.3 | 480.2 |
| 3 | 3959.2 | 2545.2 | 655.7 | -68.4 | 336.6 | 490.1 |
| 4 | 4029.6 | 2585.1 | 663.9 | -62.0 | 345.8 | 496.8 |
| YEAR | 3919.0 | 2515.6 | 649.1 | -64.3 | 333.4 | 485.2 |
| % change from '84 | 7.0 | 7.4 | 1.8 | --- | 12.8 | 7.3 |
| 1986:1 | 4083.7 | 2620.6 | 667.6 | -59.6 | 349.5 | 505.6 |
| 2 | 4154.2 | 2676.2 | 659.4 | -57.2 | 357.3 | 518.5 |
| 3 | 4259.4 | 2736.1 | 678.9 | -54.3 | 372.3 | 526.4 |
| 4 | 4332.2 | 2758.5 | 707.9 | -51.2 | 382.1 | 534.9 |
| YEAR | 4207.3 | 2697.9 | 678.5 | -55.6 | 365.3 | 521.4 |
| % change from '85 | 7.4 | 7.3 | 4.5 | --- | 9.5 | 7.5 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

**Unemployment lines will get shorter for some sectors and longer for others. Just make sure you know which line you're in.** Retraining of labor will ease unemployment over the long haul, but it's no easy row to hoe. There will always remain the untrainable segment of the labor force who refuse, or are incapable of learning new skills--an unfortunate fact of life but a seemingly necessary price to pay for technological advances.

So, choose the shortest line to future employment by joining the service producing industries. Most gains in jobs will come from this segment. That leaves a bleak outlook for the goods producing industries through 1989 where continuous decline in jobs will occur. Here's how the employment lines look from **KEDIs** vantage point:

| | |
|---|---|
| Mining: | Bad news line with continuous job declines though 1990. |
| Manufacturing: | Long wait in line with a slight chance of more jobs this year. Next year, forget it for the first half--jobs will decline. |
| Utilities: | Not good--not bad. Not much change until more jobs become available in 1987 and beyond. |
| Contruction: | Little change this year, less jobs in 1986, then picking up in residential starts in '87. |
| Transportation: | Holding steady for rails, up for trucks and air, especially after next year. |
| Trade: | Express lane for retailing, but only stable for wholesale trade. |
| Communications: | Very little waiting in line for jobs with steady growth this year and beyond. |
| Services: | No lines for jobs in hotels, motels, restaurants, fast-food, legal, banking, real estate, taxis, buses, medical and personal servies and repairs. These job orders will account for most of the increase in employment. |

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *------Employment------* Total | Agriculture | Non agric. | Unemployment rate |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1983* | 223.9 | 111.6 | 100.8 | 3.4 | 97.5 | 9.58 |
| 1984:1* | 235.8 | 112.6 | 103.7 | 3.4 | 100.4 | 7.87 |
| 2* | 236.7 | 113.6 | 105.1 | 3.4 | 101.7 | 7.48 |
| 3* | 237.8 | 113.7 | 105.3 | 3.4 | 101.9 | 7.47 |
| 4 | 238.9 | 114.2 | 105.9 | 3.4 | 102.5 | 7.21 |
| YEAR | 237.3 | 113.5 | 105.0 | 3.4 | 101.6 | 7.51 |
| % change from '83 | 1.3 | 1.7 | 4.2 | --- | 4.2 | -21.7 |
| 1985:1 | 239.8 | 115.1 | 106.7 | 3.4 | 103.3 | 7.30 |
| 2 | 240.9 | 115.6 | 107.2 | 3.4 | 103.8 | 7.26 |
| 3 | 242.3 | 116.4 | 108.0 | 3.4 | 104.6 | 7.24 |
| 4 | 243.7 | 116.9 | 108.4 | 3.4 | 105.0 | 7.28 |
| YEAR | 241.6 | 116.0 | 107.8 | 3.4 | 104.2 | 7.27 |
| % change from '84 | 1.8 | 2.2 | 2.5 | --- | 2.5 | -3.2 |
| 1986:1 | 244.5 | 117.4 | 108.8 | 3.4 | 105.4 | 7.31 |
| 2 | 245.1 | 118.1 | 109.4 | 3.4 | 106.0 | 7.33 |
| 3 | 246.2 | 118.9 | 110.3 | 3.4 | 106.9 | 7.20 |
| 4 | 247.3 | 119.6 | 111.1 | 3.4 | 107.7 | 7.14 |
| YEAR | 245.8 | 118.5 | 109.9 | 3.4 | 106.5 | 7.25 |
| % change from '85 | 1.7 | 2.2 | 1.9 | --- | 2.2 | -.1 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

**The honeymoon's over for housing starts and the bride's** left with an 11% drop in February starts. **KEDIs** been warning that girl for two years that 1985 was not the year to tie the knot with housing. That cycle peaked in '84 with no signs of recovery before '87 at the earliest. It will be a downhill slide this year for both single and multifamily categories because:

* Overstocking of houses, nationwide, but especially in in the South and West, has left too many homes unsold.

* A drop in housing permits issued in February indicates that the spring spurt of building activity will not be as active as last year. March housing permits, normally increasing with the warmer weather are not shown in early March data. That points to lessened building activity this summer.

* Mortgage rates have hit rock bottom and will start climbing. Second quarter will start the upward trend with significantly higher rates for the second half of this year.

Put all of this together and it points to a weaker year than last for housing. The Commerce Department, and W. R. Dodge predict 1.8 million units started this year--not so at **KEDI**. We see 200,000 less units.

## TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | Tho. $ | Tho. $ |
| Year & Qtr. | | | | | | |
| 1983* | 1.068 | .635 | .296 | 1.594 | 89.8 | 82.5 |
| 1984:1* | 1.278 | .690 | .298 | 1.809 | 94.7 | 86.7 |
| 2* | 1.134 | .752 | .294 | 1.743 | 99.0 | 87.4 |
| 3* | .960 | .662 | .299 | 1.487 | 97.8 | 87.2 |
| 4* | .955 | .558 | .297 | 1.502 | 99.3 | 86.7 |
| YEAR | 1.082 | .665 | .298 | 1.635 | 97.7 | 87.0 |
| % change from '83 | 1.3 | 4.7 | .7 | 2.6 | 8.8 | 5.5 |
| 1985:1 | .972 | .582 | .278 | 1.486 | 101.6 | 87.9 |
| 2 | 1.095 | .658 | .284 | 1.518 | 103.5 | 89.1 |
| 3 | 1.098 | .679 | .291 | 1.547 | 105.7 | 91.6 |
| 4 | .938 | .588 | .272 | 1.451 | 106.2 | 93.9 |
| YEAR | 1.026 | .627 | .281 | 1.501 | 104.3 | 90.6 |
| % change from '84 | -5.2 | -5.8 | -5.6 | -8.2 | 6.7 | 4.2 |
| 1986:1 | .883 | .646 | .264 | 1.473 | 106.5 | 94.6 |
| 2 | .990 | .651 | .258 | 1.418 | 107.0 | 95.2 |
| 3 | 1.076 | .624 | .272 | 1.575 | 108.7 | 97.0 |
| 4 | 1.071 | .596 | .289 | 1.583 | 110.6 | 98.3 |
| YEAR | 1.005 | .629 | .271 | 1.512 | 108.2 | 96.3 |
| % change from '85 | -2.0 | .4 | -3.6 | 3.7 | 3.7 | 6.3 |

*Historical data. **Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

**Cars coast through second quarter as demand runs out of** gas. Higher interest rates and more imports will take a bite out of Detroit's production schedules. Without buyer incentives from the automakers, assembly lines would be slower than last year at this time. With pressure on interest rates ahead, the chrome buggies will become less attractive with double-digit financing rates.

Months ago **KEDI** plugged more Japanese cars into the forecast anticipating the lifting of import quotas. At that time, **KEDI** called for 100,000 more imports this year and 200,000 next year; however, those figures are being revised upward by another 50,000 units this year and 100,000 for 1986. Even if Congress slaps a mandatory lid on import quotas (and they will), it will take time to be effective. **KEDI** sees no immediate impact on import levels coming across the Pacific Ocean from the far east until 1987.

While car sales remain strong this quarter, early data shows about a 5% increase over the same period last year. But, this has been influenced by incentives from Ford and Chrysler with low financing terms in the 9% range. Once these incentives are dropped as interest rates wake up, watch demand go to sleep. With pent-up demand largely satisfied, most Americans have traded for the new car they waited so long to buy. And so, the auto cycle is on the down side. Coupled with increased Japanese competition, **KEDI** sticks to its prediction of less cars produced this than last year, with additional declines through 1986.

### TABLE 1.42

### AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a.** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1983* | 9.2 | 6.8 | 2.4 | 1.4 | 6.7 | 2.5 |
| 1984:1* | 10.6 | 8.3 | 2.3 | 1.6 | 8.0 | 3.0 |
| 2* | 10.6 | 8.2 | 2.4 | 1.3 | 7.9 | 3.2 |
| 3* | 10.0 | 7.3 | 2.7 | 1.1 | 7.6 | 3.4 |
| 4 | 9.8 | 7.1 | 2.7 | 1.3 | 7.7 | 3.5 |
| YEAR | 10.3 | 7.7 | 2.5 | 1.3 | 7.8 | 3.3 |
| % change from '83 | 11.4 | 13.2 | 5.2 | -7.9 | 16.2 | 31.0 |
| 1985:1 | 10.5 | 7.8 | 2.7 | 1.5 | 7.8 | 3.3 |
| 2 | 10.1 | 7.4 | 2.7 | 1.5 | 7.7 | 3.5 |
| 3 | 9.9 | 7.3 | 2.6 | 1.7 | 7.4 | 3.4 |
| 4 | 10.0 | 7.3 | 2.7 | 1.6 | 7.4 | 3.6 |
| YEAR | 10.1 | 7.5 | 2.7 | 1.5 | 7.6 | 3.5 |
| % change from '84 | -1.7 | -3.2 | 7.0 | 15.4 | -2.9 | 4.5 |
| 1986:1 | 9.8 | 7.2 | 2.6 | 1.7 | 7.3 | 3.3 |
| 2 | 9.8 | 7.1 | 2.7 | 1.5 | 7.2 | 3.5 |
| 3 | 9.9 | 7.1 | 2.8 | 1.5 | 7.4 | 3.6 |
| 4 | 10.1 | 7.3 | 2.8 | 1.4 | 7.5 | 3.5 |
| YEAR | 9.9 | 7.2 | 2.7 | 1.3 | 7.4 | 3.5 |
| % change from '85 | -2.0 | -1.3 | 3.8 | -13.3 | -3.0 | -.4 |

*Historical data. **End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

**The federal deficit for FY 1990 will be under $100 billion.** That ought to bring a faint smile to your face. It's not just a nice round number **KEDI** pulled out of the hat, it's realistic and attainable. With Reagan's perserverance and the mood of our country, it's gonna happen!

At $100 billion, the public sphere will be balanced. Yes!, balanced. In proportion to other aggregates of the economy, it would be disasterous to drop the federal deficit much below that level. Why?

* State and local budgets will show a surplus of $80 billion in 1990. As these budgets grow--and they have been for several years--the burden is shifting from the White House to the State House. And that's just where the burden belongs.

* If local, state and federal coffers don't compensate for each other in the debit and credit columns, government will be collecting more funds than it is releasing. This would result in stagnation, rampant deflation leading to deep recession, or worse yet, a serious depression.

The federal budget is starting to shape up along predictable lines. Most areas will remain at funded levels, or only increase with inflation. **KEDI** is still calling for $40 billion in cuts, most of which will come from **over-abused** programs full of fraud and laziness. The student loan program, while admirable in concept, has turned into one of the biggest rip-offs going--just another example of the sloppy give-away packages that Congress cranked out for too many sessions. With each new pie-in-the-sky program comes more federal job, more red tape, more do-gooders and more Mondales screaming for higher taxes to fund even more scams to strip our wallets to the lining. Enough's enough!

TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | FEDERAL | | | STATE AND LOCAL | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1983*** | 295.2 | 59.8 | -178.6 | 109.0 | 16.0 | 44.1 |
| **1984:1*** | 301.6 | 73.0 | -161.3 | 116.7 | 19.7 | 53.9 |
| 2* | 310.7 | 75.6 | -163.7 | 119.6 | 20.2 | 54.5 |
| 3* | 319.7 | 65.3 | -180.6 | 121.2 | 17.8 | 47.6 |
| 4* | 327.9 | 69.7 | -197.3 | 123.8 | 18.7 | 55.8 |
| YEAR | 315.0 | 70.9 | -175.7 | 120.3 | 19.1 | 53.0 |
| % change from '83 | 6.7 | 18.6 | -1.6 | 10.4 | 19.4 | 20.1 |
| **1985:1** | 332.1 | 71.3 | -195.3 | 127.3 | 19.4 | 53.2 |
| 2 | 340.0 | 73.2 | -194.8 | 129.6 | 20.2 | 54.7 |
| 3 | 347.2 | 74.5 | -191.5 | 133.8 | 21.9 | 55.8 |
| 4 | 353.4 | 77.3 | -190.4 | 137.1 | 22.8 | 56.3 |
| YEAR | 343.2 | 74.1 | -193.0 | 132.0 | 21.1 | 55.0 |
| % change from '84 | 8.9 | 4.5 | 9.8 | 9.7 | 10.3 | 3.8 |
| **1986:1** | 355.6 | 77.8 | -187.1 | 137.8 | 23.2 | 57.6 |
| 2 | 360.1 | 80.4 | -180.6 | 140.4 | 23.6 | 58.9 |
| 3 | 369.7 | 85.3 | -178.5 | 143.2 | 23.8 | 61.4 |
| 4 | 379.8 | 89.1 | -175.2 | 148.1 | 25.0 | 63.2 |
| YEAR | 366.3 | 83.2 | -180.4 | 142.4 | 23.9 | 60.3 |
| % change from '85 | 6.7 | 12.2 | -6.5 | 7.9 | 3.2 | 9.6 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

**"Blue skies smiling at me,**
**Nothing but blue skies**
**Do I see."**

**KEDI**'s been humming that tune about personal income for the last two years. Still, the aggragates for personal income, and personal disposable income and their components show no signs of decreasing in their **main component**--compensation of employees. Just the opposite! A comparison of the growth of compensation of employees and the total labor force comes out on the plus side for employees and indicates that the total volume of wages and salaries will grow faster than the number of employed persons. This means that our labor force is gradually shifting from blue collars to white as our technology base gravitates away from goods production to idea production.

**GROWTH**

(% over previous year)

| Year | Total Labor Force | Compensation of employees adj/inflation |
|---|---|---|
| 1984 | 1.7 | 4.7 |
| 1985 | 2.2 | 3.5 |
| 1986 | 2.1 | 3.2 |
| 1987 | 2.2 | 3.4 |
| 1988 | 2.1 | 3.5 |
| 1989 | 2.2 | 3.7 |

| Year | Personal Income | Personal Disposable Income |
|---|---|---|
| 1984 | 9.8 | 10.1 |
| 1985 | 7.9 | 7.7 |
| 1986 | 6.9 | 6.9 |
| 1987 | 8.8 | 8.8 |
| 1988 | 9.7 | 9.8 |
| 1989 | 7.5 | 7.6 |

## TABLE 1.60

## INCOME

Quarterly data are seasonally adjusted at annual rates.

| **INDICATOR** | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| **1983*** | 2744.2 | 2340.1 | 1984.9 | 127.4 | 118.1 | 354.5 |
| **1984:1*** | 2920.2 | 2502.2 | 2113.4 | 150.6 | 152.5 | 366.2 |
| 2* | 2984.6 | 2554.3 | 2159.2 | 150.2 | 144.8 | 370.1 |
| 3* | 3047.3 | 2606.4 | 2191.9 | 141.7 | 164.1 | 369.1 |
| 4* | 3096.2 | 2644.5 | 2228.1 | 142.3 | 163.0 | 368.7 |
| YEAR | 3012.1 | 2576.9 | 2173.2 | 146.3 | 156.1 | 368.5 |
| % change from '83 | 9.8 | 10.1 | 9.5 | 14.9 | 32.2 | 4.0 |
| **1985:1** | 3162.1 | 2702.7 | 2269.3 | 145.7 | 165.2 | 375.2 |
| 2 | 3216.8 | 2747.2 | 2304.8 | 151.8 | 164.3 | 378.7 |
| 3 | 3287.1 | 2806.1 | 2334.6 | 157.0 | 165.0 | 384.6 |
| 4 | 3337.1 | 2846.6 | 2345.1 | 164.0 | 164.1 | 390.6 |
| YEAR | 3250.8 | 2775.7 | 2313.5 | 154.6 | 164.7 | 382.3 |
| % change from '84 | 7.9 | 7.7 | 6.5 | 5.7 | 5.5 | 3.8 |
| **1986:1** | 3378.0 | 2884.6 | 2382.6 | 163.0 | 164.7 | 392.3 |
| 2 | 3440.8 | 2940.3 | 2428.1 | 165.5 | 163.5 | 396.7 |
| 3 | 3520.2 | 3007.3 | 2471.9 | 169.7 | 169.7 | 405.3 |
| 4 | 3561.7 | 3033.8 | 2516.8 | 179.4 | 172.1 | 411.7 |
| YEAR | 3475.1 | 2966.5 | 2449.9 | 169.4 | 167.5 | 401.5 |
| % change from '85 | 6.9 | 6.9 | 5.9 | 9.6 | 1.7 | 5.0 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

The **DO NOT DISTURB** sign on Maestro Volcker's door says it all! He's listening to sweet music with feet propped up on the desk. The Maestro nods approvingly to the economic indicators in the orchestra with no intentions of changing the present tempo or mood until the horns start drowning out the strings. If the rhythm section speeds up faster than the maestro feels necessary, a few wraps of the baton may be called for later on this year. As for now--leave well enough alone.

Growth of monetary and credit aggregates remains unchanged. The Fed will just wait and see. No use to mess with a good thing. The economy is not heating up inflationary pressures and no slowing is seen to call for further easing of policies.

**KEDI** still sees an unchanged Fed policy regarding money supply and interest rates for the first half with some adjustments to tighten things up a bit in the second half to keep things perking along just fine. Signals from Washington would justify the position **KEDI** has taken for some time.

TABLE 1.70

## MONEY AND CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm.& indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1983* | 509.0 | 2115.9 | 396.1 | 413.7 | 325.5 | 493.4 |
| 1984:1* | 534.3 | 2216.1 | 402.5 | 428.2 | 349.7 | 502.1 |
| 2* | 543.0 | 2255.2 | 427.6 | 453.2 | 379.5 | 526.7 |
| 3* | 549.1 | 2293.9 | 450.1 | 462.4 | 396.2 | 544.3 |
| 4 | 553.7 | 2345.4 | 470.2 | 470.7 | 416.8 | 552.4 |
| YEAR | 545.0 | 2277.7 | 470.2 | 470.7 | 416.8 | 552.4 |
| % change from '83 | 7.1 | 7.6 | 18.7 | 13.8 | 28.0 | 12.0 |
| 1985:1 | 567.7 | 2419.6 | 477.8 | 480.6 | 419.5 | 562.8 |
| 2 | 573.9 | 2471.2 | 483.6 | 488.1 | 426.1 | 570.2 |
| 3 | 578.6 | 2521.7 | 489.5 | 495.0 | 433.5 | 580.4 |
| 4 | 585.0 | 2569.4 | 496.2 | 498.4 | 442.6 | 586.3 |
| YEAR | 576.3 | 2495.5 | 496.2 | 498.4 | 442.6 | 586.3 |
| % change from '84 | 5.7 | 9.6 | 5.5 | 5.9 | 6.2 | 6.1 |
| 1986:1 | 592.1 | 2643.3 | 499.8 | 502.4 | 449.8 | 589.7 |
| 2 | 597.9 | 2708.1 | 503.9 | 507.0 | 453.7 | 596.3 |
| 3 | 608.9 | 2770.3 | 508.6 | 511.3 | 459.6 | 607.1 |
| 4 | 615.3 | 2840.1 | 516.2 | 526.2 | 466.4 | 615.4 |
| YEAR | 603.3 | 2740.5 | 516.2 | 526.2 | 466.4 | 615.4 |
| % change from '85 | 4.7 | 9.8 | 4.0 | 5.6 | 5.4 | 5.0 |

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

Interest rates are at spring training camp warming up for the second half of this year's game when they will flex their muscles after a long winter of no activity. Rates will edge ahead and score in the third quarter. It'll be a low scoring game, gaining a few yards each play throughout the second half. No record breaking touchdown passes, just steady strides forward over the long run.

While some economists call for federal funds rates of 10-10.5% in July, with long-term government bonds running at 12.5-13.0%, **KEDI** says that's too high. Look for 9-9.5% maximum for federal funds, while government bonds should hold at 12%. This compares to present rates of 8.7% for federal funds and 11.7% for government bonds.

Basically, **KEDI** forecasts insignificant changes in rates for this quarter. Again, **KEDI** parts company with economists calling for dramatic increases come summer. Increases, yes, but not by leaps and bounds.

## TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg. rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg. |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1983* | 8.61 | 10.79 | 13.43 | 12.05 | 11.34 | 160.41 |
| 1984:1* | 9.17 | 11.07 | 13.57 | 12.28 | 12.16 | 160.50 |
| 2* | 9.81 | 12.31 | 13.98 | 12.97 | 12.68 | 155.76 |
| 3* | 10.32 | 12.99 | 14.45 | 12.99 | 12.83 | 160.54 |
| 4* | 8.80 | 11.80 | 13.34 | 12.35 | 11.78 | 165.19 |
| YEAR | 9.53 | 12.04 | 13.84 | 12.65 | 12.36 | 160.50 |
| % change from '83 | 10.6 | 11.6 | 3.0 | 5.0 | 9.0 | .1 |
| 1985:1 | 8.54 | 10.61 | 13.26 | 11.98 | 11.58 | 174.86 |
| 2 | 8.87 | 10.72 | 13.19 | 12.15 | 11.79 | 171.23 |
| 3 | 9.14 | 11.06 | 13.31 | 12.24 | 11.89 | 167.32 |
| 4 | 9.82 | 11.38 | 13.69 | 12.46 | 12.24 | 169.15 |
| YEAR | 9.09 | 10.94 | 13.36 | 12.21 | 11.90 | 170.64 |
| % change from '84 | -4.6 | -9.1 | -3.5 | -3.5 | -3.7 | 6.3 |
| 1986:1 | 10.31 | 11.74 | 13.76 | 12.37 | 12.16 | 161.24 |
| 2 | 10.02 | 11.50 | 13.58 | 12.46 | 12.11 | 164.18 |
| 3 | 9.68 | 10.91 | 13.26 | 12.21 | 12.32 | 167.26 |
| 4 | 8.37 | 10.38 | 13.21 | 11.82 | 12.47 | 175.49 |
| YEAR | 9.60 | 11.24 | 13.45 | 12.22 | 12.27 | 167.04 |
| % change from '85 | 5.6 | 1.7 | .7 | .0 | 3.1 | -2.1 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

In the last two issues we've dealt with two characteristic features of the Kent Model: orientation on the future--not the past; and, the forecaster's judgment. This month we look at the family tree to explain how the various economic "mothers-in-law" live under one roof in the form of **equations**. Marriages come and go, but economic relationships exist beyond the honeymoon and have a definite influence on the forecast period.

## 6.0 EQUATIONS--FRAMEWORK OF THE KENT MODEL

There are three "till death do us part" vows in the framework of the Kent Model:

1. the check book (accountancy relationships)
2. the shopping list (technical relationships)
3. the inevitable (institutional relationships)

Also, we keep a watchful eye on fickle members of the family who philander around in the forecast. We'll call them "behavioral relationships."

Let's dig into the nature of these relationships.

### Accountancy Relationships

The check book has to balance. Total assets must equal total liability, plus net worth. Or: Opening inventory + production + purchases = consumption + sales + ending inventory. We measure the solvency of the economy looking for imbalances anywhere along the line.

### Technical Relationships

Technical relationships are effected up and down the shopping list: when one sneezes, others catch cold as well. When car sales lag, steel production slows. But then, you always knew that. So, its like the kids riddle: if a hen-and-a-half laid an egg-and-a-half in a day-and-a-half, how long would it take a rooster sitting on a doorknob to hatch a hardware store? Or, how many pounds of scrap and kilowatt hours of electricity are in a ton of finished steel? Technical relationships are measured to forecast the impact of one industry's relative position.

## THE KENT ECONOMIC FORECASTING SYSTEM

### Institutional Relationships

Like they say, marriage is an institution. But who wants to be in an institution? Well, our institutional relationships are just about as bad. They include tax rates, reserve requirements against deposits, and laws (or the lack thereof). Get the picture? All of them have an effect on how our economy behaves--or should.

### Speculative (Behavorial) Relationships

Here come the rebel-rousers! They're as slippery as a greased pig and just as hard to hold on to with any certainty, or validity. While they demand attention, the proverbial grain of salt must be applied when tempted to over-estimate their staying power. Try these out in your next trivial pursuit game:

* On average, will people save 6% or 8% of income?
* Will people eat out more and save nothing instead?
* Will business invest more of less in plants and tools?

These behavioral relationships cannot be projected to the future from past performance. Like we've said before here at KEDI: history repeats itself, but always with differences.

### Molding a Forecast

Of the 43,000 equations in the Kent Model, 200 are in the behavioral category. The forecaster must apply judgment, based on perception of future events to mold the final forecast. With the framework of unrefutable, equations to work with, the Kent Model is logical and simple:

* Accountancy, technical and institutional equations are solved with the help of the computer and the output of these equations becomes a projection.

* Absolute, accurate projections of future trends are adjusted by the forecaster to account for behavioral relationships.

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Consumer Price Index in 1984** has been selected for comparison. The actual figure is the March 1985 estimate of the U. S. Department of Commerce for the Consumer Price Index in 1984. Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

**COMPARISONS OF ACCURACY OF PREDICTIONS**
(Consumer Price Index, All Urban Consumers, 1967=100)
**Actual figure: 311.1**

| **Forecaster (and page in source)** | **Date of Forecast** | **Forecast** | **Accuracy %** |
|---|---|---|---|
| Nat'l Securities & Research Corp, p.9 | 11/28/83 | 312.0 | .3 |
| Economics Dept.,U.S.Trust Co of NY,p.11 | 12/83 | 312.2 | .4 |
| J. A. Livingston, **The Philadelphia Inquirer,** p. 15 | 12/25/83 | 314.0 | .9 |
| Economics Depart, Bankers Trust, p. 19 | 1/6/84 | 314.8 | 1.2 |
| First Interstate Bank of Calif., p.20 | 11/4/83 | 315.7 | 1.5 |
| Georgia State University, p. 21 | 11/83 | 312.5 | .5 |
| Chemical Bank, p. 22 | 11/4/83 | 313 9 | .9 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 313.2 | .7 |
| Research Seminar in Quantitative Economics, Univ.of Michigan, p.24 | 11/17/84 | 314.1 | 1.0 |
| Citicorp Information Service, p. 27 | 12/1/83 | 315.8 | 1.5 |
| Metropolitan Life Insurance Co., p.28 | 12/1/84 | 314.4 | 1.1 |
| Fidelity Bank, p. 32 | 12/19/83 | 312.8 | .5 |
| Evans Economics, Inc., p. 34 | 12/22/84 | 310.1 | -.3 |
| Chase Econometrics, p. 35 | 12/24/83 | 313.1 | .6 |
| Journal of Bus. Forecasting, Consensus Forecast from Quarterly Survey, p. 37 | 1/84 | 313.6 | .8 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **311.3** | **.1** |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 312.5 | .5 |
| Armco, Inc, p. 45 | 1/18/84 | 312.0 | .3 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

**HISTORICAL DATA SOURCES**

| Table Number | Data Series | Source |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| **1.41 Housing** | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| **1.42 Autos** | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| **1.50 Federal and State Budgets** | **Federal govt:**Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:**Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| **1.60 Income** | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| **1.70 Money and Credit** | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| **1.80 Interest Rates, Yields, & Securities Prices** | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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**KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.**

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

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Prepared by the staff of

**Kent Economic and Development Institute, Inc.**

P.O. Box 99

Tallmadge, Ohio 44278

(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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## CONTENTS

Page

**0.00 Introduction**

- 0.01 Executive Summary 1
- 0.02 Overview 2
- 0.03 Assumptions 4
- 0.04 Forecast Highlights 4

**1.00 Detailed Forecasts**

- 1.10 Real Growth 6
- 1.20 Prices and Nominal GNP
  - 1.21 Prices 8
  - 1.22 Nominal GNP 10
- 1.30 Employment and Labor 12
- 1.40 Housing and Automobiles
  - 1.41 Housing 14
  - 1.42 Automobiles 16
- 1.50 Budgets 18
- 1.60 Income 20
- 1.70 Money and Credit 22
- 1.80 Interest Rates, Yields and Securities Prices 24

2.00 **The Kent Economic Forecasting System (continued)** 26

3.00 **Comparisons of Accuracy of Predictions** 28

4.00 **Historical Data Sources** 29

## TABLES

- 0.00 KEDI Forecast Highlights 3
- 1.11 Selected Indicators of Real Growth 5
- 1.12 Real GNP 7
- 1.21 Prices 9
- 1.22 Nominal GNP 11
- 1.30 Employment and Labor 13
- 1.41 Housing 15
- 1.42 Automobiles 17
- 1.50 Budgets 19
- 1.60 Income 21
- 1.70 Money and Credit 23
- 1.80 Interest Rates, Yields, and Security Prices 25
- 2.00 Comparisons of Accuracy of Predictions 28
- 3.00 Historical Data Sources 29

**SOURCES:**

U.S.Department of Commerce first estimates of 1985:1 National Income and Product data, April 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, April 1985.

The lastest available data on prices, employment, industrial, and financial developments.

## 0:00 INTRODUCTION

## 0:01 EXECUTIVE SUMMARY

### Highlights

**GNP for first quarter '85 at 4%--not 1.3% reported by Commerce Department: OR, What You See Is Not What You Get.**

### Real Growth

The long and the short of it calls for steady moderate growth through the second half of this decade.

### Prices

Inflation sprouts are shooting up all over the lawn! The Fed better dig out some weed killer just in cast they spread.

### Employment & Labor

History made in March as 60.3% of U. S. population has jobs. That's the highest percentage **ever**.

### Housing

The fiddler on the roof better start looking for a new place to fiddle around--housing industry's optimistic foundations become shaky.

### Automobiles

**Sock it to me, baby!** That's what they're doing to us from across the non-so-tranquil Sea of Tranquility as Japan ups its auto quotas.

### Budgets

Robin Hood is alive and well in the congress as he tries to rob from the rich and give to the poor--again, and again, and again.

### Income

**Easy come--easy go.** That's how it looks from **KEDI**s vantage point. People are in a spending mood.

### Money & Credit

**KNOCK! KNOCK Guess Who?** Inflationary pressure lurches around the hallway outside the FED Chairman's door.

### Interest Rates, Yields & Security Prices

Alas, poor Yorick . . . we knew him well. As Hamlet laments the loss, we say fond adieu to low interest rates, so long we knew.

## 0.02 OVERVIEW

**GNP for first quarter '85 at 4%--not 1.3% reported by Commerce Department: OR, What You See Is Not What You Get.** The economy is much stronger that 1985:1 GNP data indicates. Commerce Department's April 20 report shows a meager 1.3% growth. This is fuel for the fire of those who talk of slowdown, weak economy, and yes, even **recession**. They wallow in the hogwash and yell for the Fed to stimulate the economy by lowering interest rates. What those screaming ninnies should do is take a good look at reality!

**The economy is strong with no signs of overall weakness.** The 1.3% growth in 1985:1 reported by the Commerce Department is **OPTICAL GROWTH.** What is optical growth, you ask? **KEDI**'s dictionary defines it as "constructed to assist sight or to correct defects in vision." And that's just about the way it is over at Commerce. The mathemathics they use to compute the GNP differ from the real world. How? Let's look at **NET EXPORTS** which is the result of exports minus imports. If imports are larger than exports it has a negative effect on **NET EXPORTS** thereby optically reducing the actual growth of the economy. That's exactly what happened over at Commerce when they calculated the 1985:1 GNP. Looking at the deterioration in net exports over the past six quarters (1983:4 = $-13.4 bil to 1985:1 = $-26.1 bil) it means that net exports almost doubled. This would appear (optically) to reduce the total output of final goods and services and drag the GNP down to a measly 1.3% growth.

If you don't understand all that optical bunk, here's what it really means: **1985:1 GNP = 4%.** And that's the truth! That's real growth. So, come on all you henny-penny loudmouths, take another look at the truth before you leap.

All this is not to say there are not some problems lurking around in the shade of the old apple tree. **KEDI** sees inflationary blood pressure creaping up. More on that under PRICES.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

| Indicator | Unit | 1985 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|
| Gross national product | bil.72$ | 1689.8 | 1798.1 | 1882.6 | 1940.1 |
| | % change | 3.1 | 3.8 | 4.7 | 3.1 |
| Index of industrial production | 1967=100 | 168.5 | 182.5 | 193.5 | 201.8 |
| | % change | 3.2 | 4.7 | 6.0 | 4.3 |
| Capacity utilization | % | 81.4 | 82.1 | 82.7 | 81.6 |
| | % change | -.4 | 1.1 | .7 | -1.3 |
| Unemployment rate | % | 7.29 | 7.00 | 6.79 | 6.75 |
| | % change | -3.2 | -3.9 | -3.0 | -.5 |
| Private housing starts | mil. units | 1.739 | 1.902 | 2.081 | 1.991 |
| | % change | -.6 | 14.4 | 9.4 | -4.3 |
| Car sales | mil. units | 10.4 | 10.5 | 11.4 | 11.3 |
| | % change | -.2 | 4.0 | 8.7 | -1.2 |
| Implicit GNP price deflator | 1972=100 | 231.1 | 255.9 | 269.2 | 282.7 |
| | & change | 4.3 | 4.8 | 5.2 | 5.0 |
| Consumer price index | 1967=100 | 321.7 | 361.0 | 380.5 | 400.3 |
| | & change | 3.4 | 5.2 | 5.4 | 5.2 |
| Producer price index (finished goods) | 1967=100 | 297.0 | 335.9 | 357.1 | 374.6 |
| | % change | 2.0 | 6.6 | 6.3 | 4.9 |
| Federal deficit | bil. $ | -195.1 | -164.0 | -136.0 | -131.1 |
| | % change | 11.0 | -9.7 | -17.1 | -3.6 |
| Personal income | bil. $ | 3263.1 | 3818.4 | 4192.6 | 4498.6 |
| | % change | 8.3 | 8.1 | 9.8 | 7.3 |
| Prime rate | % | 10.72 | 9.46 | 9.64 | 10.11 |
| | % change | -11.0 | -13.4 | 1.9 | 4.9 |
| Mortgage rate | % | 13.46 | 12.63 | 12.30 | 11.93 |
| | % change | -2.8 | -6.6 | -2.6 | -3.0 |
| Currency plus demand deposits | bil. $ | 576.9 | 634.5 | 679.5 | 711.5 |
| | % change | 5.8 | 5.0 | 7.1 | 4.7 |
| Commercial and industrial loans | bil. $ | 494.3 | 527.4 | 560.6 | 578.0 |
| | % change | 5.0 | 2.9 | 6.3 | 3.1 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged:

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the May 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more sustainable level in 1987.

## TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| **INDICATOR** | GNP | Index of ind. prod. | Unem-ploym't rate | Capac. util'n rate | Pvt. hous'g starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1967=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| **1984*** | 1639.3 | 163.3 | 7.5 | 81.7 | 1.749 | 10.4 |
| **1985:1** | 1668.0 | 165.2 | 7.3 | 81.1 | 1.792 | 10.9 |
| 2 | 1683.6 | 167.7 | 7.3 | 81.4 | 1.830 | 10.5 |
| 3 | 1700.1 | 169.8 | 7.3 | 81.5 | 1.801 | 9.9 |
| 4 | 1707.5 | 171.2 | 7.3 | 81.4 | 1.532 | 10.1 |
| YEAR | 1689.8 | 168.5 | 7.5 | 81.4 | 1.739 | 10.4 |
| **% change from '84** | 3.1 | 3.2 | -3.2 | -.4 | -.6 | -.2 |
| **1986:1** | 1710.4 | 172.0 | 7.3 | 81.1 | 1.536 | 9.9 |
| 2 | 1723.6 | 172.2 | 7.4 | 81.2 | 1.675 | 10.1 |
| 3 | 1740.1 | 174.8 | 7.2 | 81.4 | 1.754 | 10.2 |
| 4 | 1755.6 | 178.0 | 7.2 | 81.1 | 1.682 | 10.3 |
| YEAR | 1732.4 | 174.3 | 7.3 | 81.2 | 1.662 | 10.1 |
| **% change from '85** | 2.5 | 3.4 | -.3 | -.2 | -4.4 | -2.9 |
| **1987:1** | 1772.4 | 178.9 | 7.1 | 81.4 | 1.815 | 10.1 |
| 2 | 1789.5 | 180.8 | 7.0 | 81.9 | 1.967 | 10.4 |
| 3 | 1809.5 | 183.4 | 6.9 | 82.5 | 1.996 | 10.7 |
| 4 | 1821.1 | 186.9 | 6.9 | 82.7 | 1.829 | 10.7 |
| YEAR | 1798.1 | 182.5 | 7.0 | 82.1 | 1.902 | 10.5 |
| **% change from 86** | 3.8 | 4.7 | -3.9 | 1.1 | 14.4 | 4.0 |

*Historical data.

# 1.00 DETAILED FORECASTS

## 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

The **long and the short of it** calls for steady moderate growth through the second half of this decade.

**KEDI**'s short-term analysis:

* First quarter '85 saw 900,000 new jobs.

* Early April data for retail sales, auto sales and housing starts show good gains.

* New orders for nondefense durables fell in March by 6.2% against the February rise of 24.8%. So, the March drop is not alarming in view of the quirk in February.

* March building awards rose 12%.

* March raw steel output (8.3 mil. tons) increased from February's 6.9 mil. tons. No sign of lagging there. It points to good growth for many months ahead.

Weak spots persist with sluggish indicators for industries not directly related to the main driving force of the present economy. In the driver's seat are: defense and space equipment, housing, autos, and new technology. The back seat is filled with metal mining (especially iron ore), copper, aluminum, bauxite, uranium, agriculture chemicals, oil and gas drilling and drilling equipment, farm machinery and equipment, textile and garment industry. These back seaters have a long ride ahead.

**KEDI**'s long-term forecast:

1985 - Moderate growth, slowing down late in the year.

1986 - Slower growth than '85 but no recessionary trends with stable unemployment rate.

1987 - Start of new housing and auto cycle accelerates growth with continued strength in defense and space buildup.

1988 - Further growth, peaking of the cycle.

1989 - Leveling off with no declines.

1990 - Slow growth persists as autos and housing winds down with continuous growth in the service sector.

## TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| **1984*** | 1639.3 | 1062.4 | 289.7 | -5.0 | 122.5 | 179.6 |
| **1985:1** | 1668.0 | 1087.9 | 295.5 | -26.1 | 129.3 | 181.3 |
| 2 | 1683.6 | 1096.3 | 297.8 | -24.9 | 130.6 | 183.8 |
| 3 | 1700.1 | 1106.2 | 300.1 | -24.6 | 132.5 | 185.9 |
| 4 | 1707.5 | 1110.5 | 297.3 | -22.5 | 134.1 | 188.1 |
| YEAR | 1689.8 | 1100.2 | 297.7 | -24.5 | 131.6 | 184.8 |
| **% change from '84** | 3.1 | 3.5 | 2.8 | --- | 7.4 | 2.9 |
| **1986:1** | 1710.4 | 1109.7 | 297.0 | -22.3 | 136.6 | 189.4 |
| 2 | 1723.6 | 1117.0 | 298.4 | -21.7 | 138.2 | 191.7 |
| 3 | 1740.1 | 1119.7 | 305.2 | -19.9 | 141.3 | 193.8 |
| 4 | 1755.6 | 1123.7 | 314.9 | -22.8 | 143.5 | 196.0 |
| YEAR | 1732.4 | 1117.5 | 303.9 | -21.7 | 140.0 | 192.7 |
| **% change from '85** | 2.5 | 1.6 | 2.1 | --- | 6.4 | 4.3 |
| **1987:1** | 1772.4 | 1130.7 | 318.3 | -19.6 | 145.7 | 197.3 |
| 2 | 1789.5 | 1138.7 | 323.6 | -20.4 | 147.8 | 199.8 |
| 3 | 1809.5 | 1142.6 | 330.7 | -16.3 | 150.1 | 202.4 |
| 4 | 1821.1 | 1143.5 | 335.4 | -15.7 | 152.3 | 205.6 |
| YEAR | 1798.1 | 1138.8 | 327.0 | -18.0 | 149.0 | 201.3 |
| **% change from '86** | 3.8 | 1.9 | 7.6 | --- | 5.4 | 4.4 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

**Inflation sprouts are shooting up all over the lawn!** The FED better dig out some weed killer just in case they spread with epidemic speed.

First quarter '85 rekindled laziness in the workplace:

* Labor productivity fell by 1.9% against a rise of 3.1% in 1984:4.

* Hours worked increased 3.3% against compensation increases of 6%. That's **inflation** starting it's nasty little tricks all over again just when we were feeling a little complacent.

* Unit labor costs leaped 7.3% over 1984:4--the largest quarterly increase in three years.

We're looking at some strong stuff! **KEDI** calculates it this way: **IF** labor costs continue to increase at the 7% pace while productivity continues to goof off, **INFLATION WILL BE AT 7-8% NEXT YEAR.** Just think about it--nearly double the present rate.

**BUT** don't look for it to happen. Really! **KEDI** says the FED will nip it in the bud--and soon. Second half '85 will see the purse strings tighten up for monetary and credit conditions just like we've been saying all along.

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes---* | | *-------Price deflators-------* | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross nat'l prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967=100 | 1967=100 | 1972=100 | 1972=100 | 1972=100 | 1972=100 |
| Year & Qtr. | | | | | | |
| **1984*** | 311.1 | 291.2 | 223.4 | 220.4 | 241.1 | 251.7 |
| **1985:1** | 317.4 | 292.5 | 229.0 | 224.5 | 247.6 | 260.6 |
| 2 | 319.8 | 294.6 | 231.4 | 228.3 | 249.3 | 263.5 |
| 3 | 322.6 | 298.3 | 234 8 | 233.7 | 251.7 | 265.1 |
| 4 | 326.9 | 302.4 | 237.1 | 235.0 | 254.7 | 267.2 |
| YEAR | 321.7 | 297.0 | 233.1 | 230.4 | 250.8 | 264.1 |
| % change from '84 | 3.4 | 2.0 | 4.3 | 4.5 | 4.0 | 4.9 |
| **1986:1** | 329.6 | 305.4 | 240.0 | 239.4 | 256.0 | 268.7 |
| 2 | 333.2 | 312.7 | 243.1 | 242.1 | 258.4 | 272.1 |
| 3 | 338.7 | 318.3 | 246.2 | 247.0 | 261.3 | 275.1 |
| 4 | 344.5 | 323.7 | 247.5 | 246.7 | 264.2 | 278.9 |
| YEAR | 336.5 | 315.0 | 244.2 | 243.8 | 260.0 | 273.7 |
| % change from '85 | 4.6 | 6.1 | 4.8 | 5.8 | 3.6 | 3.6 |
| **1987:1** | 347.0 | 327.4 | 250.9 | 252.2 | 265.8 | 281.3 |
| 2 | 352.2 | 331.6 | 253.7 | 255.6 | 269.3 | 284.6 |
| 3 | 356.1 | 338.3 | 257.2 | 260.4 | 272.6 | 287.5 |
| 4 | 361.0 | 346.2 | 261.8 | 266.9 | 275.4 | 290.2 |
| YEAR | 354.1 | 335.9 | 255.9 | 258.8 | 270.8 | 285.9 |
| % change from '86 | 5.2 | 6.6 | 4.8 | 6.1 | 4.1 | 4.5 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

All that barking last month over at the Commerce Department Dog Pound woke up the mean old junkyard dogs who really cut loose with some inaccurate indications of where the economy is heading. They're barking slowdown, end of growth period, and lots of nasty things just because it looked to them like 1985:1 was a bummer--it sounded more like a troubled hound baying the moon. They're yelping like stuck hogs because the GNP, in constant '72 dollars grew only 1.3%. But, let's look at what **REALLY** happened. All of these increased: Personal Consumption Expenditures, Fixed Investments, Change in Inventories and Government Purchases. **ALL** encouraging signs.

The bad guy lurking in the shadows is **net exports**, plunging from an already dismal $-13.4 billion in 1984:4 to $-26.1 billion in 1985:1 in constant terms. In nominal terms it went from $-56.0 billion to $-73.0 billion. Dismal, indeed!

Since NET EXPORTS is calculated by subtracting imports from exports, it keeps the GNP statistically lower than the real facts of life. In reality, the economy is growing by a healthy 4% in constant terms and 5.5% in current terms. Don't be misled by the mathematical quirks built into the GNP calculation. Look at this comparison instead:

| | **Bil. const.'72$** | | **Billion $** | |
|---|---|---|---|---|
| | **1984:4** | **1985:1** | **1984:4** | **1985:1** |
| Pers Cons/Exp | 1075.4 | 1081.9 | 2396.4 | 2442.8 |
| Fixed Investment | 273.1 | 74.8 | 601.1 | 610.8 |
| Change in Inventories | 16.8 | 20.7 | 36.6 | 46.6 |
| Net Exports | -13.4 | -26.1 | -56.0 | -73.0 |
| Government Purchases | 310.5 | 310.6 | 780.5 | 792.6 |
| GNP Total | 1662.4 | 1668.0 | 3758.7 | 3819.9 |

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *--------------Gross National Product--------------* | | | | | |
|---|---|---|---|---|---|---|
| **INDICATOR** | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1984*** | 3662.8 | 2341.8 | 637.9 | -64.2 | 295.4 | 452.0 |
| **1985:1** | 3819.9 | 2442.8 | 657.4 | -73.0 | 320.2 | 472.5 |
| 2 | 3895.9 | 2502.4 | 649.8 | -76.2 | 325.6 | 484.3 |
| 3 | 3991.8 | 2585.4 | 657.4 | -77.3 | 333.5 | 492.8 |
| 4 | 4048.5 | 2609.9 | 666.8 | -72.4 | 341.6 | 502.6 |
| YEAR | 3939.0 | 2535.1 | 657.9 | -74.7 | 330.2 | 488.1 |
| **% change from '84** | 7.6 | 8.3 | 3.1 | --- | 11.7 | 7.3 |
| **1986:1** | 4105.0 | 2657.0 | 671.9 | -61.1 | 349.7 | 510.5 |
| 2 | 4190.1 | 2704.8 | 662.6 | -66.0 | 357.1 | 521.6 |
| 3 | 4284.1 | 2766.0 | 679.8 | -64.0 | 369.2 | 533.1 |
| 4 | 4345.1 | 2772.5 | 717.4 | -61.3 | 379.9 | 546.6 |
| YEAR | 4231.1 | 2725.1 | 682.9 | -65.1 | 364.0 | 528.0 |
| **% change from '85** | 7.4 | 7.5 | 3.8 | --- | 10.2 | 8.2 |
| **1987:1** | 4447.0 | 2851.9 | 715.6 | -62.8 | 387.3 | 555.0 |
| 2 | 4540.0 | 2910.9 | 721.8 | -59.3 | 398.0 | 568.6 |
| 3 | 4654.1 | 2975.1 | 742.5 | -54.6 | 409.2 | 581.9 |
| 4 | 4767.6 | 3051.5 | 756.3 | -56.2 | 419.4 | 596.6 |
| YEAR | 4602.2 | 2947.4 | 734.1 | -58.2 | 403.5 | 575.5 |
| **% change from '86** | 8.8 | 8.2 | 7.5 | --- | 10.8 | 9.0 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

**History made in March as 60.3% of U.S. population has jobs.** That's the highest percentage **ever**. More than 900,000 new jobs opened up in 1985:1. So let's not talk about a weak economy, but rather the mix of the new jobs created. It's true the unemployment rate drops ever so slowly, but just remember that we've legislated permanent non-employment for most of that segment of society. There are those more content to live on the dole than by the sweat of their brow and will probably never contribute to their own well being--or society's either for that matter. It's just one of those ponderables where you're **damned if you do, and damned if you don't** do something about it. Unfortunately, it boils down to liberal versus moderate politicians. But the conscience of our society will eventually come to grips with the inherent fraud in our social programs, and one bright shining moment we may once again glimpse a Camelot wherein members of our great country will be proud to work. Even the bleading-heart liberals of the 60s and 70s realize they must moderate if they ever hope to hold elective office again.

The fairer sex leads in the number of new jobs. Let's hear it for the girls. They're going back to work in droves. But don't let that fool you. It's the **kinds** of jobs they're filling thats more important. Remember, we're moving into a high-tech, service-oriented economy where dexterity of the hands and mind means more than brawn. The ladies are filling these jobs at increasing rates while the grunts from the old production lines refuse to get in step with the different drummer of the 80s. Soon may come the day when **househusbands** outnumber **housewives**.

Less productive workers are still winning significant wage increases--higher than their productivity merits but an unfortunate hand-me-down from brutish collective bargaining tactics still lurking about in the throws of a slow but certain death.

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *------Employment------* | | | Unemployment rate |
|---|---|---|---|---|---|---|
| | | | Total | Agriculture | Non agric. | |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| **1984*** | 223.9 | 113.5 | 105.0 | 3.4 | 101.6 | 7.52 |
| **1985:1** | 239.8 | 115.2 | 106.7 | 3.4 | 103.3 | 7.32 |
| 2 | 240.9 | 115.6 | 107.2 | 3.4 | 103.8 | 7.29 |
| 3 | 242.3 | 116.3 | 107.9 | 3.4 | 104.5 | 7.25 |
| 4 | 243.7 | 116.6 | 108.1 | 3.4 | 104.7 | 7.28 |
| YEAR | 241.6 | 115.9 | 107.5 | 3.4 | 104.1 | 7.29 |
| **% change from '84** | 1.8 | 2.1 | 2.4 | --- | 2.4 | -3.2 |
| **1986:1** | 244.5 | 117.3 | 108.7 | 3.4 | 105.3 | 7.30 |
| 2 | 245.1 | 118.1 | 109.4 | 3.4 | 106.2 | 7.36 |
| 3 | 246.0 | 118.7 | 110.1 | 3.4 | 106.8 | 7.24 |
| 4 | 247.4 | 119.4 | 110.8 | 3.4 | 107.4 | 7.18 |
| YEAR | 245.8 | 118.4 | 109.8 | 3.4 | 106.4 | 7.27 |
| **% change from '85** | 1.7 | 2.1 | 2.1 | --- | 2.2 | -.3 |
| **1987:1** | 248.2 | 120.2 | 111.7 | 3.4 | 108.3 | 7.10 |
| 2 | 248.8 | 121.5 | 112.5 | 3.4 | 109.1 | 7.04 |
| 3 | 249.8 | 121.7 | 113.3 | 3.4 | 109.9 | 6.92 |
| 4 | 250.6 | 122.3 | 113.8 | 3.4 | 110.4 | 6.94 |
| YEAR | 249.4 | 121.3 | 112.8 | 3.4 | 109.4 | 7.00 |
| **% change from '86** | 1.5 | 2.4 | 2.8 | --- | 2.9 | -3.9 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

The fiddler on the roof better start looking for a new place to fiddle around as the housing industry's optimistic foundations become shaky. While **multifamily** units keep breaking new ground, **singlefamily** starts aren't starting as fast as the weather warms into their peak season. A closer look at the March housing data reveals:

* The sharp increase was for **multifamily** units. Seasonally adjusted, they jumped from 508 units in February to 746 in March. While multifamily data are erratic at best, don't expect such numbers to repeat this year.

* **Singlefamily** starts didn't change much from February to March. Since this is a key indicator of housing activity, it shows a softening in new starts as March should be stronger with improved weather.

* **Building permits issued** in March continued strong at an annualized rate of 1.8 million units over February's 1.6 million units. This year's first quarter of 1.7 million units is well below 1984:1 of 1.8 million units annualized.

This hard data confirms **KEDIs** previous forecast of 1.7 million annualized units started this year. It's not as optimistic as Merrill Lynch's recently-raised forecast of 1.8 million units. Michael Sumichrast, chief economics of the National Association of Home Builders says the pace of housing activity will be slowing down for the balance of this year (Wall Street Journal, April 30, 1985).

TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| **INDICATOR** | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | Tho. $ | Tho. $ |
| Year & Qtr. | | | | | | |
| **1984*** | 1.084 | .665 | .298 | 1.679 | 97.7 | 87.0 |
| **1985:1** | 1.111 | .681 | .299 | 1.709 | 101.6 | 87.9 |
| 2 | 1.108 | .693 | .301 | 1.615 | 103.8 | 90.2 |
| 3 | 1.148 | .682 | .298 | 1.528 | 105.9 | 91.9 |
| 4 | .949 | .583 | .285 | 1.476 | 106.8 | 94.8 |
| YEAR | 1.079 | .660 | .296 | 1.582 | 104.5 | 91.2 |
| % change from '84 | -.5 | -.8 | -.2 | -5.3 | 7.0 | 4.8 |
| **1986:1** | .896 | .640 | .269 | 1.502 | 107.1 | 95.1 |
| 2 | 1.027 | .648 | .263 | 1.537 | 107.8 | 96.0 |
| 3 | 1.115 | .639 | .299 | 1.604 | 109.2 | 98.7 |
| 4 | 1.084 | .598 | .291 | 1.627 | 111.9 | 99.9 |
| YEAR | 1.031 | .631 | .281 | 1.568 | 109.0 | 97.2 |
| % change from '85 | -4.5 | -4.4 | -5.2 | -1.0 | 4.3 | 6.6 |
| **1987:1** | 1.147 | .668 | .285 | 1.588 | 113.2 | 102.4 |
| 2 | 1.285 | .682 | .304 | 1.682 | 115.0 | 103.2 |
| 3 | 1.310 | .686 | .316 | 1.885 | 117.3 | 104.8 |
| 4 | 1.182 | .647 | .301 | 1.810 | 119.4 | 105.9 |
| YEAR | 1.231 | .671 | .302 | 1.741 | 116.2 | 104.1 |
| % change from '86 | 19.4 | 6.3 | 7.3 | 11.1 | 6.6 | 7.1 |

*Historical data. **Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

**Sock it to me, baby!** And that's just what they're doing to us from across the not-so-tranquil Sea of Tranquility as the Japanese up their auto quotas. As **KEDI** said earlier, our western trading allies will soon jump on Japan with more force than a sumo wrestler hitting the dirt. So, Margaret Thatcher let'em have it recently when she declared that the Japanese tactics **stick in her craw.** Way to go, Maggie! Don't you love the way the British can hand it right back with tact. Meanwhile, Prime Minister Nakasoni urges his people to buy more imported goods which happen to be as scarce as hen's teeth, if they even exist, in the Japanese marketplace. With added duties putting prices higher than a flag on Mount Fuji, little incentive exists for papa-san to **chopstick** over the extra yen for the yearning to own something from another country. After all, with their heads in the clouds of the rising sun, the populace of Japan believes that no other country is producing goods for export--except them. So sorry, Nakasoni-san you said little to convince anyone with your **buy more imports** speech to the loyal Imperial subjects. They have to **see** the goods in the marketplace before they can buy anything not MADE IN JAPAN.

And so as Japan announces they will ship 2.3 million cars to US in the year beginning April 1, we see a half-million unit increase over last year's 1.85 million units.

While April saw a spurt in car sales, don't hang much hope on it to last long except for the persistently good market for light duty trucks. Most of it resulted from interest rate incentives, especially after GM jumped on the bandwagon. However, consumers are heavy in debt and while it may be true that people pile debts anyway, it just can't keep up at the clip of last year and 1985:1.

Here's how **KEDI** sees the next five years for cars:

1985 - Good, but not like '84.
1986 - Declining, with domestic production flat.
1987 - Start of a new cycle picks up speed.
1988 - Sharp increase in production and sales.
1989 - Recovery continues.
1990 - Leveling off.

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a.** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| **1984*** | 10.4 | 8.0 | 2.4 | 1.4 | 8.0 | 3.3 |
| **1985:1** | 10.9 | 8.4 | 2.5 | 1.6 | 8.3 | 3.7 |
| 2 | 10.5 | 7.9 | 2.6 | 1.8 | 7.9 | 3.6 |
| 3 | 9.9 | 7.3 | 2.6 | 1.7 | 7.5 | 3.5 |
| 4 | 10.1 | 7.4 | 2.7 | 1.6 | 7.5 | 3.6 |
| YEAR | 10.4 | 7.8 | 2.6 | 1.6 | 7.8 | 3.6 |
| % change from '84 | -.2 | -3.1 | 8.3 | 14.5 | -2.3 | 9.1 |
| **1986:1** | 9.9 | 7.2 | 2.7 | 1.7 | 7.4 | 3.4 |
| 2 | 10.1 | 7.4 | 2.7 | 1.5 | 7.5 | 3.6 |
| 3 | 10.2 | 7.3 | 2.9 | 1.6 | 7.5 | 3.5 |
| 4 | 10.3 | 7.5 | 2.8 | 1.5 | 7.7 | 3.5 |
| YEAR | 10.1 | 7.4 | 2.1 | 1.3 | 7.5 | 3.5 |
| % change from '85 | -3.9 | -3.9 | 6.7 | -6.2 | -3.3 | -2.8 |
| **1987:1** | 10.1 | 7.4 | 2.7 | 1.6 | 7.5 | 3.4 |
| 2 | 10.4 | 7.6 | 2.8 | 1.7 | 7.6 | 3.5 |
| 3 | 10.7 | 7.9 | 2.8 | 1.6 | 7.8 | 3.7 |
| 4 | 10.7 | 8.0 | 2.7 | 1.4 | 8.1 | 3.6 |
| YEAR | 10.5 | 7.7 | 2.8 | 1.4 | 7.8 | 3.6 |
| % change from '86 | 4.0 | 4.4 | 3.7 | -6.7 | 3.4 | 1.4 |

*Historical data. **End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

**Robin Hood** is alive and well in the congressional halls of Congress as he tries to rob from the rich and give to the poor--again, and again, and again. However, the Administration is holding firm, at least at Treasury, by asserting that there should be no minimum tax to perpetuate existing spending levels or to reduce the deficit.

There are as many approaches to a minimum tax as there are ways to spend it. All of this comes across as just so much noise from a bunch of ill-advised legislators who feel that doing **anything** is better than doing nothing. All we hear are the beefs about the **biggies** paying no taxes. What they forget is that the biggies are the driving force in the economy by investing in new development, technology, plants and **jobs**. While these factors expand our economy, what we hear from a bunch of **harpies** on the hill is such drivel as "if I pay 40% of my income in taxes, why should someone with far greater wealth than I pay nothing?" Good grief, you can dig up any example to fit any situation you happen to be hacking at the moment, but the truth is if the congress attempts to slap higher minimum taxes on just for the sake of avoiding inevitable budget cuts, there's sure to be a big veto pen poised at The White House. Rightfully so!

Why **KEDI** believes it's a grave disservice to impose higher minimum taxes:

- High tax rates on high income wipes out savings.
- Savings are needed to finance investment and development.
- No investment and development equals stagnation.
- Stagnation equals--get the picture?

**KEDI** holds firm to the previous position that federal budget cuts for the coming FY '86 that comes rolling along in October will be around $40 billion. That will give us a fighting chance to clean up the deficit if the Congress doesn't screw it up before then.

TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | *-------FEDERAL | ----------- | -* | *----STATE AND LOCAL | ---- | -* |
|---|---|---|---|---|---|---|
| **INDICATOR** | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1984*** | 315.0 | 70.9 | -175.7 | 120.3 | 19.1 | 53.0 |
| **1985:1** | 342.2 | 71.3 | -198.8 | 126.9 | 19.3 | 53.3 |
| 2 | 350.7 | 73.4 | -196.9 | 129.9 | 20.3 | 54.9 |
| 3 | 357.3 | 75.6 | -193.2 | 134.5 | 21.9 | 56.1 |
| 4 | 365.2 | 77.9 | -191.5 | 138.1 | 22.6 | 56.9 |
| YEAR | 353.8 | 74.6 | -195.1 | 132.3 | 21.0 | 55.3 |
| **% change from '84** | 12.3 | 5.1 | 11.0 | 10.0 | 10.1 | 4.3 |
| **1986:1** | 375.7 | 78.2 | -188.4 | 138.2 | 23.4 | 58.1 |
| 2 | 386.5 | 79.6 | -181.7 | 141.5 | 23.9 | 59.6 |
| 3 | 399.7 | 84.5 | -179.6 | 144.7 | 24.0 | 62.8 |
| 4 | 414.3 | 86.6 | -176.1 | 149.8 | 24.8 | 65.9 |
| YEAR | 394.1 | 82.2 | -181.5 | 143.6 | 24.0 | 61.6 |
| **% change from '85** | 11.4 | 10.2 | -7.0 | 8.5 | 13.9 | 11.4 |
| **1987:1** | 421.7 | 89.2 | -170.5 | 151.3 | 25.2 | 64.7 |
| 2 | 430.6 | 91.3 | -167.2 | 153.2 | 26.4 | 69.3 |
| 3 | 442.3 | 93.4 | -158.7 | 157.4 | 27.3 | 73.2 |
| 4 | 458.5 | 95.8 | -159.5 | 159.8 | 28.0 | 75.1 |
| YEAR | 438.3 | 92.4 | -164.0 | 155.4 | 26.7 | 71.3 |
| **% change from '86** | 11.2 | 12.4 | -9.7 | 8.2 | 11.4 | 15.7 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

**Easy come--easy go.** That's how it looks from **KEDIs** vantage point. People are in a spending mood as Personal Income, Personal Disposable Income, their components and corporate profits bask in the fair weather of prosperity. With low interest rates on savings, what the heck, might as well spend it until rates go back up to encourage saving. Plus, there are healthy gains ahead for everyone through '87 and beyond. With this spending jag gaining momentum, **KEDI** has reduced forecast data for **Personal Savings** for the balance of this year and next.

In the **Corporate Profits** accounts, **KEDI** expects the same general trend as the economy with the lowest increments in after-tax profits recuperating near the end of this year and the first half of '86. Speaking of spending jags, look for vigorous expansion to start in 1987 with momentum well into 1989.

TABLE 1.60

### INCOME

Quarterly data are seasonally adjusted at annual rates.

| **INDICATOR** | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| **1984*** | 3012.1 | 2576.9 | 2173.2 | 146.3 | 156.1 | 368.5 |
| **1985:1** | 3141.6 | 2652.6 | 2272.2 | 144.6 | 141.0 | 375.4 |
| 2 | 3232.5 | 2754.9 | 2317.9 | 151.9 | 162.1 | 379.1 |
| 3 | 3329.1 | 2842.0 | 2341.8 | 157.4 | 164.3 | 384.8 |
| 4 | 3369.1 | 2869.4 | 2362.1 | 165.4 | 164.8 | 391.7 |
| YEAR | 3263.1 | 2779.7 | 2313.6 | 154.8 | 158.1 | 382.8 |
| **% change from '84** | 8.3 | 7.9 | 6.9 | 5.8 | 1.2 | 3.9 |
| **1986:1** | 3434.4 | 2919.5 | 2397.6 | 164.2 | 165.7 | 392.4 |
| 2 | 3496.3 | 2968.3 | 2455.8 | 166.1 | 164.3 | 396.9 |
| 3 | 3581.5 | 3037.1 | 2497.4 | 170.8 | 169.8 | 405.8 |
| 4 | 3617.6 | 3053.5 | 2456.3 | 179.5 | 172.8 | 411.9 |
| YEAR | 3532.5 | 2994.6 | 2474.3 | 170.2 | 168.2 | 401.8 |
| **% change from '85** | 8.3 | 7.7 | 6.5 | 9.9 | 6.4 | 5.0 |
| **1987:1** | 3719.9 | 3138.9 | 2615.8 | 183.4 | 174.3 | 414.8 |
| 2 | 3786.1 | 3202.3 | 2675.3 | 186.9 | 172.6 | 419.9 |
| 3 | 3787.0 | 3278.3 | 2758.4 | 192.4 | 177.5 | 426.3 |
| 4 | 3980.5 | 3362.2 | 2847.7 | 197.5 | 180.4 | 429.8 |
| YEAR | 3818.4 | 3245.4 | 2724.3 | 190.1 | 176.2 | 422.7 |
| **% change from '86** | 8.1 | 8.4 | 9.1 | 11.7 | 4.8 | 5.2 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

**KNOCK! KNOCK! Guess Who?**

The Fed Chairman wakes up with a start. His feet come off the desk as he hears footsteps just beyond the DO NOT DISTURB sign on his door. Inflationary pressure is lurching about in the hallway as the winter's sonata so sweetly played plucks out a few clinkers off key. He dozes less serenely as the discordant sounds demand attention. He knows it's a little too soon to call in the posse to round up the hooligans but he's watching the barometer more closely now as signs of pressure begin to mount.

Amid all the confusion stirred up about the state of the economy, here's how **KEDI** calls it:

* The economy will keep expanding along with the demand for money and credit with **no need to ease** monetary **and credit conditions.**

* Inflationary pressure will continue, not slacken. Anti-inflationary policy will dictate a tightening to bring conditions back in line.

* Money supply is growing rapidly, well above the target ranges set up by the FED. If this growth continues at the current pace, then **too much money will start to chase too few goods** with higher inflation resulting.

Throw all of this in the barrel, mix it up and we have: credit needs of the growing economy, renewed cost-push inflationary pressure, and a too-high supply of money. That's how **KEDI** calls the second half of '85 unless the FED acts to tighten monetary and credit conditions.

**It will!**

TABLE 1.70

## MONEY AND CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| **INDICATOR** | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm.& indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| **1984*** | 545.0 | 2277.4 | 477.0 | 470.7 | 416.9 | 554.9 |
| **1985:1** | 568.0 | 2415.4 | 481.4 | 474.2 | 417.4 | 560.1 |
| 2 | 574.3 | 2469.2 | 487.5 | 478.3 | 421.6 | 567.3 |
| 3 | 579.2 | 2520.1 | 490.4 | 491.5 | 430.2 | 577.2 |
| 4 | 586.0 | 2568.1 | 495.2 | 494.3 | 439.7 | 582.8 |
| YEAR | 576.9 | 2493.2 | 495.2 | 494.3 | 439.7 | 582.8 |
| **% change from '84** | 5.8 | 9.5 | 3.8 | 5.0 | 5.5 | 5.0 |
| **1986:1** | 592.9 | 2640.1 | 499.3 | 495.6 | 447.5 | 587.6 |
| 2 | 598.8 | 2703.0 | 503.8 | 497.1 | 451.9 | 590.2 |
| 3 | 609.7 | 2768.2 | 507.9 | 504.4 | 459.4 | 597.4 |
| 4 | 616.7 | 2834.1 | 516.0 | 512.3 | 466.8 | 610.8 |
| YEAR | 604.5 | 2736.4 | 516.0 | 512.3 | 466.8 | 610.8 |
| **% change from '85** | 4.8 | 9.7 | 4.2 | 3.6 | 6.2 | 4.8 |
| **1987:1** | 623.7 | 2895.2 | 519.7 | 514.3 | 468.3 | 614.3 |
| 2 | 631.4 | 2955.4 | 523.3 | 516.7 | 470.1 | 617.8 |
| 3 | 638.2 | 3008.2 | 527.6 | 521.5 | 475.7 | 626.4 |
| 4 | 646.5 | 3078.3 | 534.3 | 527.4 | 481.9 | 635.6 |
| YEAR | 634.5 | 2984.3 | 534.3 | 527.4 | 481.9 | 635.6 |
| **% change from '86** | 5.0 | 9.1 | 3.5 | 2.9 | 3.2 | 4.1 |

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

**Alas, poor Yorick . . . we knew him well.**
As Hamlet laments the loss, we say fond adieu
To low interest rates, so long we knew.

And **so long** it will be for the balance of this year and the first half of '86. But the journey will last no more than a year as interest rates drop in the second half of '86 for another long period much like the one we're coming out of in the second half of this year.

Even with the strength of **KEDI**s convictions about interest rates, there is chit-chat in the press to support and refute our position. Mickey Levy, senior vice president of Fidelity Bank in Philadelphia sees the money supply growing very rapidly and feels that the FED may react with a slightly tougher credit stance to remind investors of its determination to combat inflation. But...Irving Auerback, an economist at Aubrey G. Lanston & Co feels that "the next move by the Fed will be a further easing in the availability of reserves." To add to that, Philip Braverman, chief economist of Briggs, Schaedle & Co. believes that "the Fed is playing it safe by easing because it sees the weakness in the economy and it doesn't want to take any chances." He's referring to a recession when he talks about **chances**. Nobel Prize winning economist Paul Samuelson sums it up very **middle-of-the-road** nicely by saying "I expect the Fed to remain inscrutable for at least the next few weeks until the economy becomes more scrutable."

For more than a year **KEDI** has advocated higher interest rates in the second half of '85. The expanding economy will be pushing interest rates up because of growing business demands for loans. There is nothing on the horizon to indicate a reduction in interest rates. And so, amid all the **ups and downs** bantering, **KEDI** sees 9-9.5% for federal funds and 12% for long-term government bonds in July against the present 7.8% and 11.6% respectively.

To be . . . or not to be . . . that is the question.

TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg. rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg. |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| **1984*** | 9.52 | 12.04 | 13.84 | 12.65 | 12.36 | 160.50 |
| **1985:1** | 8.34 | 10.48 | 13.29 | 12.06 | 11.41 | 177.46 |
| 2 | 8.89 | 10.54 | 13.39 | 12.16 | 11.58 | 176.28 |
| 3 | 9.19 | 10.66 | 13.46 | 12.26 | 11.76 | 178.94 |
| 4 | 9.76 | 11.18 | 13.69 | 12.47 | 12.05 | 174.25 |
| YEAR | 9.05 | 10.72 | 13.46 | 12.24 | 11.70 | 176.60 |
| **% change from '84** | -5.0 | -11.0 | -2.8 | -3.3 | -5.3 | 10.0 |
| **1986:1** | 9.67 | 11.56 | 13.84 | 12.56 | 12.17 | 165.28 |
| 2 | 9.36 | 11.32 | 13.67 | 12.47 | 12.12 | 169.25 |
| 3 | 9.18 | 10.72 | 13.31 | 12.19 | 12.29 | 174.29 |
| 4 | 8.57 | 10.08 | 13.20 | 11.81 | 12.40 | 179.47 |
| YEAR | 9.20 | 10.92 | 13.51 | 12.26 | 12.25 | 172.07 |
| **% change from '85** | 1.6 | 1.9 | .3 | .1 | 4.7 | -2.6 |
| **1987:1** | 7.82 | 9.84 | 13.01 | 11.65 | 12.14 | 182.16 |
| 2 | 7.46 | 9.47 | 12.95 | 11.17 | 11.96 | 183.45 |
| 3 | 7.14 | 9.35 | 12.48 | 11.04 | 11.80 | 181.38 |
| 4 | 7.03 | 9.18 | 12.06 | 11.12 | 11.19 | 185.27 |
| YEAR | 7.36 | 9.46 | 12.63 | 11.25 | 11.77 | 183.09 |
| **% change from '86** | -20.0 | -13.4 | -6.6 | -8.3 | -3.9 | 6.4 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

### 7.0 THE KENT MODEL IS A MACRO AND AN INTERMEDIATE MODEL

Three cousins in the modeling family come from different backgrounds even though they are still related:

- Macroeconomic models
- Intermediate models
- Microeconomic models

Looking into the make-up kits of our cousins, we see different job descriptions for each model:

A **Macroeconomic model** is broad in scope encompassing the entire economy. Everything from GNP, Employment, Exports, Imports, Money Supply, Inflation, and the rest of the economic activity is tucked into her overnight bag. The aggregate data from this grab bag provides a look at the general direction of the economy as well as what is likely to exist in future conditions. As broad as she is, our macroeconomic model can't come up with specifics about firms within an industry. She leaves that to her second cousin who deals with the nitty-gritty. The macroeconomic models contain hundreds, even thousands of equations and variables and are employed by private firms, universities and the Commerce Department.

**Intermediate models** have the low-down on specific industries: things like output, costs, prices, profits, wages, and employment prospects. Obviously, individual firms within an industry are more concerned about their own pocketbooks as it relates to the general economy such as farm machinery manufacturers wanting to know what will happen to tractor sales, at home and abroad, and competitor's production. Intermediate models provide firms with information about the size and potential of the market, comparisons of cost structures, and technical relationships between production and consumption within their industry. Very few intermediate models are working today. The

Commerce Department publishes the so called Input-Output tables that serve as an important source of data for input into the intermediate models. While intermediate models zero in on specific industries, our third cousin does even more specific tasks.

**Microeconomic models** concern themselves with the economics of a specific firm and predict sales, costs, prices of products, the company's market share, profitability of products, needs for replacement parts, employment, and...oh well, it goes on forever. Some microeconomic models incorporate technological changes and their impact on costs and sales. Many private professional forecasting and consulting services are supplying such models, while many companies build their own.

## THE KENT MODEL

The Kent Model is both a **macro and an intermediate model**. Blending the forecasts of macroeconomic aggregates with industry forecasts contributes significantly to the model's accuracy. Other forecasting services use separate macro and intermediate models but cannot guarantee that both forecasts are consistent. Especially since their macroeconomic models are based on quarterly forecasts while their intermediate models produce only yearly forecasts. The Kent Model is based on quarterly data for both models forming a unique and interactive system to forecast consistent data and macroeconomic aggregates.

**KEDI** also manages and develops microeconomic models for firms. All of this comprises the **KENT ECONOMIC FORECASTING SYSTEM,** and assures complete and perfect consistancy at all three levels of forecasting.

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Personal Disposable Income in 1984** has been selected for comparison. The actual figure is the April 1985 estimate of the U. S. Department of Commerce for Personal Disposable Income in 1984. Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

**COMPARISONS OF ACCURACY OF PREDICTIONS**
(Personal Disposable Income, 1984, bil. $)
**Actual figure: 2576.9**

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Georgia State University, p. 21 | 11/83 | 2555.5 | -.8 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 2539.7 | -1.4 |
| Research Seminar in Quantitative Economics, Univ.of Michigan, p.24 | 11/17/83 | 2529.3 | -.8 |
| Citicorp Information Service, p. 27 | 12/1/83 | 2554.6 | -.9 |
| Metropolitan Life Insurance Co., p.28 | 12/1/84 | 2578.0 | .0 |
| Fidelity Bank, p. 32 | 12/19/83 | 2544.3 | -1.3 |
| Evans Economics, Inc., p. 34 | 12/22/83 | 2541.8 | -1.4 |
| Journal of Bus. Forecasting, Consensus Forecast from Quarterly Survey, p. 37 | 1/84 | 2559.7 | -.7 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **2543.1** | **-1.2** |
| The Equitable Life Assurance Society of the U.S., p. 42 | 1/9/94 | 2550.8 | -1.0 |
| Standard & Poors Corp, p. 44 | 1/12/84 | 2548.1 | -1.1 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 2533.1 | -1.7 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

**HISTORICAL DATA SOURCES**

| Table Number | Data Series | Source |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:**Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:**Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

## JUNE 1, 1985

Prepared by the staff of

**Kent Economic and Development Institute, Inc.**

P.O. Box 99

Tallmadge, Ohio 44278

(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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## CONTENTS

Page

**0.00 Introduction**

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

**1.00 Detailed Forecasts**

1.10 Real Growth 6
1.20 Prices and Nominal GNP
  1.21 Prices 8
  1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
  1.41 Housing 14
  1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24

**2.00 The Kent Economic Forecasting System (continued)** 26

**3.00 Comparisons of Accuracy of Predictions** 28

**4.00 Historical Data Sources** 29

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29

**SOURCES:**

U.S.Department of Commerce second estimates of 1985:1 National Income and Product data, May 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, May 1985.

The lastest available data on prices, employment, industrial, and financial developments.

## 0:00 INTRODUCTION

## 0:01 EXECUTIVE SUMMARY

### Highlights

**"The world will little note, nor long remember, what we say here, but can never forget what they did here,"** if Reagan's Tax Reform proposals become law.

### Real Growth

**Hot air from Hot Springs Conference** as corporate chiefs start tax reform lobbying.

### Prices

**"Whither thou goest, I shall go,"** said CPI to PPI.

### Employment & Labor

There is little unity at United Air Lines as both sides seem to be digging in for a long hot summer.

### Housing

Apartment starts up--single family starts stall.

### Automobiles

**Detroit keeps asking Roger Staubach how to spell RELIEF,** while Japan sips saki and smiles smugly.

### Budgets

Get set for a federal government that will only defend our shores, deliver our mail and write retirement checks.

### Income

The postman was a welcome sight in April as IRS checks boosted Personal Disposable Income by 2.9%.

### Money & Credit

**PLEASE, MR. VOLCKER, EASY NO MORE!** Wait until the economy really needs more funds in 1986.

### Interest Rates, Yields & Security Prices

Give that drowning man a drink of water!

## 0.02 OVERVIEW

### Tax Reform

**"The world will little note, nor long remember, what we say here, but can never forget what they did here,"** if Reagan's Tax Reform proposals become law.

What more precarious adventure could any President embark upon than putting his hand into every citizen's pocket and, hopefully, taking out less. What he **is** pulling out is snakes, frogs, lizzards, and oh yes, a fistful of lobbyists. In the next few months we'll be visited upon by congregations of pro and con, anti-this and for-that coalitions of just about every particular pet peeve imaginable. And then, in the sporting American tradition of fair play, let the best man win. What the President calls a "peaceful revolution" will be far from peaceful before he signs a new tax bill.

**KEDI** sees the enactment of tax reform legislation before Christmas along the lines the President has outlined. In keeping with his budget battles, he'll have to give and take a little, but when the smoke clears, look for sweeping reforms along his guidelines. After all, both parties applaud the effort and appear to be behind him in bringing out much needed reform.

One thing bothers us at **KEDI**. IF enacted as proposed, corporations will pay more taxes. In the 1986-1990 period, corporate taxes would increase by $40 billion when considering:

* Corporate tax rate drop from 46% to 33%.
* Cancellation of the Accelerated Cost Recovery System.
* Removal of the investment tax credit.

But, here's what would happen:

* The cost of capital formation would increase
* Corporate liquidity would decline
* Less business investment would occur

Consequently, we have slower economic growth and lower productivity. **KEDI** calculates the proposed corporate taxation would be better off in the tax rate of 25-28% and not 33%.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

| Indicator | Unit | 1985 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|
| Gross national product | bil.72$ | 1689.2 | 1796.4 | 1880.8 | 1941.0 |
| | % change | 3.0 | 3.7 | 4.7 | 3.2 |
| Index of industrial production | 1967=100 | 168.4 | 182.5 | 193.6 | 202.2 |
| | % change | 3.1 | 4.8 | 6.1 | 4.4 |
| Capacity utilization | % | 81.3 | 82.0 | 82.6 | 81.6 |
| | % change | -.5 | 1.0 | .7 | -1.3 |
| Unemployment rate | % | 7.28 | 7.00 | 6.79 | 6.75 |
| | % change | -3.3 | -3.8 | -3.0 | -.5 |
| Private housing starts | mil. units | 1.749 | 1.905 | 2.086 | 1.994 |
| | % change | -.1 | 14.3 | 9.5 | -4.4 |
| Car sales | mil. units | 10.5 | 10.7 | 11.6 | 11.5 |
| | % change | .7 | 5.1 | 8.7 | -1.1 |
| Implicit GNP price deflator | 1972=100 | 233.3 | 256.7 | 270.3 | 284.1 |
| | & change | 4.5 | 4.9 | 5.3 | 5.1 |
| Consumer price index | 1967=100 | 321.6 | 353.4 | 372.8 | 392.2 |
| | & change | 3.4 | 5.9 | 5.5 | 5.2 |
| Producer price index (finished goods) | 1967=100 | 269.0 | 334.9 | 356.0 | 373.4 |
| | % change | 2.0 | 6.4 | 6.3 | 4.9 |
| Federal deficit | bil. $ | -181.9 | -163.0 | -133.8 | -127.4 |
| | % change | 3.5 | -9.3 | -17.9 | -4.8 |
| Personal income | bil. $ | 3278.7 | 3813.6 | 4175.9 | 4484.9 |
| | % change | 8.9 | 7.6 | 9.5 | 7.4 |
| Prime rate | % | 10.29 | 9.43 | 9.61 | 10.07 |
| | % change | -14.6 | -16.7 | 1.9 | 4.8 |
| Mortgage rate | % | 13.33 | 12.28 | 11.99 | 11.55 |
| | % change | -3.7 | -6.8 | -2.4 | -3.6 |
| Currency plus demand deposits | bil. $ | 577.9 | 636.9 | 672.1 | 704.4 |
| | % change | 6.0 | 5.2 | 7.1 | 4.8 |
| Commercial and industrial loans | bil. $ | 484.8 | 529.6 | 563.5 | 581.5 |
| | % change | 3.0 | 3.2 | 6.4 | 3.2 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged:

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the June 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1989 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more acceptable level in 1987.

## TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unem-ployment rate | Capacity util'n rate | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1967=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 163.3 | 7.5 | 81.7 | 1.749 | 10.4 |
| 1985:1 | 1665.4 | 165.2 | 7.3 | 81.1 | 1.792 | 10.9 |
| 2 | 1682.1 | 167.5 | 7.3 | 81.3 | 1.804 | 10.7 |
| 3 | 1700.2 | 169.8 | 7.2 | 81.5 | 1.833 | 10.1 |
| 4 | 1709.1 | 171.0 | 7.3 | 81.4 | 1.534 | 10.2 |
| YEAR | 1689.2 | 168.4 | 7.3 | 81.3 | 1.741 | 10.5 |
| % change from '84 | 3.0 | 3.1 | -3.0 | -.5 | -.5 | .7 |
| 1986:1 | 1715.6 | 171.9 | 7.3 | 81.2 | 1.541 | 10.0 |
| 2 | 1725.9 | 172.2 | 7.4 | 81.2 | 1.677 | 10.2 |
| 3 | 1738.2 | 174.6 | 7.2 | 81.4 | 1.760 | 10.2 |
| 4 | 1751.6 | 177.7 | 7.2 | 81.1 | 1.686 | 10.4 |
| YEAR | 1732.8 | 174.1 | 7.3 | 81.2 | 1.666 | 10.2 |
| % change from '85 | 2.6 | 3.4 | 0.0 | -.1 | -4.3 | -2.6 |
| 1987:1 | 1770.3 | 178.5 | 7.1 | 81.3 | 1.815 | 10.3 |
| 2 | 1788.1 | 180.9 | 7.0 | 81.9 | 1.972 | 10.6 |
| 3 | 1807.3 | 183.5 | 6.9 | 82.4 | 1.996 | 10.9 |
| 4 | 1820.1 | 187.0 | 6.9 | 82.6 | 1.836 | 11.1 |
| YEAR | 1796.4 | 182.5 | 7.0 | 82.0 | 1.905 | 10.7 |
| % change from '86 | 3.7 | 4.8 | -4.1 | 1.0 | 14.3 | 5.1 |

*Historical data.

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

**Hot air from Hot Springs Conference as corporate chiefs start tax lobbying.**

While most of the nation's top executives met in the relaxing resort atmosphere of Hot Springs, Virginia in mid-May, surely they inhaled too much of the spa's hot vapors. They let off steamy remarks about a **decided slowdown** brought about by a poor performance in international trading, and stopped just short of predicting a recession. All of the ballyhoo was undoubtedly focused at 1600 Pennsylvania Avenue in the hope that President Reagan would moderate his tax reform proposals concerning corporate profits. At **KEDI** we find no fault with boisterous lobbying, but come on fellas, let's tell it like it is: **there will not be a "decided slowdown" over the** next 18 months as predicted from the hot air at Hot Springs. All indications point to steady moderate growth. Look at these increases in April over the March figures:

1. Orders for durable goods went up by 1%.
2. Housing starts up .3%.
3. Retail sales increased .9%
4. Auto sales in May off slightly from year-earlier level.
5. Raw steel production strong in first half of May.
6. After-tax income up a record 2.9% in April.

**KEDI** sees moderate growth of **3% in 1985**, and **2.6% in** 1986. We are in a slower stage of growth now. It shouldn't be compared to the three ring circus performance of 6.8% last year. We can't grow at that pace **all the time**, but it still doesn't mean we're on the brink of disaster. Just hang on 'till 1987 when the growth rate will quicken for several years.

The only real **DECIDED SLOWDOWN** we see at **KEDI** is in productivity of labor in the factories. That's where the corporate chiefs should blow hot air to revive workers from their slumber.

## TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 1062.4 | 289.7 | -5.0 | 122.5 | 179.6 |
| 1985:1 | 1665.4 | 1089.2 | 294.1 | -27.0 | 128.2 | 181.0 |
| 2 | 1682.1 | 1097.3 | 297.0 | -25.1 | 129.4 | 183.5 |
| 3 | 1700.2 | 1109.3 | 298.1 | -24.5 | 131.5 | 185.8 |
| 4 | 1709.1 | 1112.8 | 298.6 | -22.9 | 132.2 | 188.4 |
| YEAR | 1689.2 | 1102.2 | 297.0 | -24.9 | 130.3 | 184.7 |
| % change from '84 | 3.0 | 3.7 | 2.5 | 397.5 | 6.4 | 2.8 |
| 1986:1 | 1715.6 | 1116.1 | 297.9 | -22.1 | 134.4 | 189.3 |
| 2 | 1725.9 | 1120.6 | 300.1 | -21.0 | 135.0 | 191.2 |
| 3 | 1738.2 | 1122.1 | 305.0 | -19.7 | 137.2 | 193.6 |
| 4 | 1751.6 | 1125.5 | 312.6 | -22.3 | 139.9 | 195.9 |
| YEAR | 1732.8 | 1121.1 | 303.9 | -21.3 | 136.6 | 192.5 |
| % change from '85 | 2.6 | 1.7 | 2.3 | -14.5 | 4.8 | 4.2 |
| 1987:1 | 1770.3 | 1132.4 | 317.4 | -19.2 | 142.8 | 196.9 |
| 2 | 1788.1 | 1141.8 | 324.5 | -20.1 | 144.6 | 197.3 |
| 3 | 1807.3 | 1148.6 | 328.2 | -16.8 | 147.2 | 200.1 |
| 4 | 1821.1 | 1151.9 | 330.3 | -15.9 | 150.0 | 203.8 |
| YEAR | 1796.7 | 1143.7 | 325.1 | -18.0 | 146.2 | 199.5 |
| % change from '86 | 3.7 | 2.0 | 7.0 | -15.4 | 7.0 | 3.6 |

---

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

**"Whither thou goest, I shall go," said CPI to PPI.**

An early indicator when inflation starts to swell, the Producer Price Index is being affected by prices of **imported** materials. In one year, the cost of crude materials has tumbled while prices of intermediate and finished goods keep increasing. This is caused by import pressure resulting from a strong dollar abroad. That's spelled **cheap imports**. This pressure will not ease until the dollar declines--if it ever does, higher prices for crude materials will trickle through intermediate and finished goods and on into consumer prices. Yet, inflationary pressure, domestically, is forcing up labor costs while productivity goofs off.

But where PPI goes, so goes CPI. If the Producer Price Index is kept down, the Consumer Price Index will show only small increases.

**Main Components of PPI (1967=100)**

| Component | March '85 | March '84 | April '85 | April '84 |
|---|---|---|---|---|
| Crude materials | 311.5 | 339.4 | 307.7 | 340.1 |
| Intermediate mat'ls | 318.4 | 319.5 | 319.1 | 320.2 |
| Finished goods | 292.7 | 291.7 | 293.6 | 291.4 |

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100.0 | 1967= 100.0 | 1972= 100.0 | 1972= 100.0 | 1972= 100.0 | 1972= 100.0 |
| Year & Qtr. | | | | | | |
| 1984* | 311.1 | 291.2 | 223.4 | 220.4 | 241.1 | 251.7 |
| 1985:1 | 317.4 | 292.5 | 229.2 | 224.0 | 247.1 | 260.9 |
| 2 | 319.7 | 294.6 | 231.6 | 228.0 | 249.3 | 263.4 |
| 3 | 322.6 | 298.4 | 234.9 | 232.6 | 251.5 | 265.2 |
| 4 | 326.8 | 302.3 | 237.7 | 236.2 | 254.4 | 266.9 |
| YEAR | 321.6 | 296.9 | 233.3 | 230.2 | 250.6 | 264.1 |
| % change from '84 | 3.4 | 2.0 | 4.5 | 4.4 | 3.9 | 4.9 |
| 1986:1 | 329.5 | 305.3 | 240.2 | 238.2 | 256.2 | 268.8 |
| 2 | 333.2 | 312.8 | 243.8 | 253.6 | 258.8 | 272.3 |
| 3 | 338.4 | 318.1 | 246.9 | 248.1 | 261.9 | 275.5 |
| 4 | 333.2 | 323.0 | 248.2 | 249.3 | 264.8 | 279.2 |
| YEAR | 333.6 | 314.8 | 244.8 | 247.3 | 260.4 | 273.9 |
| % change from '85 | 3.7 | 6.0 | 4.9 | 7.4 | 3.9 | 3.7 |
| 1987:1 | 346.7 | 326.9 | 251.7 | 253.3 | 266.2 | 281.4 |
| 2 | 351.8 | 331.0 | 254.2 | 256.8 | 269.8 | 284.8 |
| 3 | 354.9 | 337.5 | 258.1 | 261.3 | 273.4 | 287.7 |
| 4 | 360.0 | 344.2 | 262.9 | 267.5 | 276.1 | 290.4 |
| YEAR | 353.4 | 334.9 | 256.7 | 259.7 | 271.4 | 286.1 |
| % change from '86 | 5.9 | 6.4 | 4.9 | 5.0 | 4.2 | 4.4 |

---

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

**Let the good times roll** while increases in consumer spending are forecast through the rest of this year. This is confirmed by the major component of the GNP [Personal Consumption Expenditures]. **KEDI** has seen this happening for months.

**Personal Consumption Expenditures**
(bil. current dollars, seasonally adjusted at annual rates)

| **Category** | **1984:4** | **1985:1** | **1985:2** | **1985:3** | **1985:4** | **change from 1984:4-1985:4** |
|---|---|---|---|---|---|---|
| Durables | 326.3 | 334.5 | 342.1 | 349.6 | 353.2 | 8.2% |
| Nondurables | 866.5 | 877.0 | 889.1 | 906.1 | 916.6 | 5.8% |
| Services | 1203.5 | 1234.6 | 1270.0 | 1324.9 | 1358.9 | 12.9% |

This data tells **KEDI** that consumers will spend 13% more on **services** by year end that they did last year. This increase in spending will go to fast foods, entertainment, transportation, repairs, medical, legal, banking, and transportation services. Spending on **nondurables** like food and beverages will increase 6%, while the 8% increase in durables will go into the household rather than behind the wheel of a new car. Look for accelerated spending on household appliances, furniture and fixtures in the second half of this year. Data adjusted for inflation shows that the real value of goods and services will go up significantly:

**Consumer Purchases**

| | In constant 1972 $ | | | Changes in Price Deflators | | |
|---|---|---|---|---|---|---|
| | 1984:4 | 1985:4 | % change | 1984:4 | 1985:4 | % change |
| Durables | 182.9 | 190.3 | 4.0 | 178.4 | 185.6 | 4.0 |
| Nondurables | 395.0 | 405.4 | 2.6 | 219.4 | 226.1 | 2.6 |
| Services | 497.8 | 517.1 | 3.9 | 241.8 | 262.8 | 8.7 |

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## TABLE 1.22

## NCMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product | | | | | ---------------* |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 3662.8 | 2341.8 | 637.9 | -64.2 | 295.4 | 452.0 |
| 1985:1 | 3817.1 | 2446.1 | 661.2 | -69.1 | 316.8 | 472.2 |
| 2 | 3895.7 | 2501.2 | 659.9 | -71.3 | 322.6 | 483.3 |
| 3 | 3993.8 | 2580.6 | 660.2 | -70.4 | 330.7 | 492.7 |
| 4 | 4062.5 | 2628.7 | 665.7 | -71.0 | 336.3 | 502.8 |
| YEAR | 3942.3 | 2539.1 | 661.8 | -70.5 | 326.6 | 487.8 |
| % change from '84 | 7.6 | 8.4 | 3.7 | 9.7 | 10.6 | 7.9 |
| 1986:1 | 4120.9 | 2659.0 | 670.9 | -62.1 | 344.3 | 508.8 |
| 2 | 4207.7 | 2731.5 | 672.1 | -65.9 | 349.4 | 520.6 |
| 3 | 4291.6 | 2784.2 | 678.4 | -63.7 | 359.3 | 533.4 |
| 4 | 4347.5 | 2806.4 | 684.6 | -61.0 | 370.5 | 547.0 |
| YEAR | 4241.9 | 2745.3 | 676.5 | -63.2 | 355.9 | 527.5 |
| % change from '85 | 7.6 | 8.1 | 2.2 | -10.3 | 9.0 | 8.1 |
| 1987:1 | 4455.8 | 2868.3 | 715.0 | -61.7 | 380.1 | 554.1 |
| 2 | 4545.4 | 2931.8 | 720.6 | -59.0 | 390.1 | 561.9 |
| 3 | 4664.6 | 3001.0 | 739.7 | -54.2 | 402.4 | 575.7 |
| 4 | 4785.0 | 3081.3 | 753.4 | -55.7 | 414.2 | 591.8 |
| YEAR | 4612.7 | 2970.6 | 732.2 | -57.7 | 396.7 | 570.9 |
| % change from '86 | 8.7 | 8.2 | 8.2 | -8.7 | 11.5 | 8.2 |

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*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

There is little unity at United Air Lines as both sides seem to be digging in for a long hot summer. It could well be another situation comparable to the air traffic controller as United starts to rebuild it's flight crews **without** those on the picket lines. It's a necessary move in the face of eroding productivity and increasing labor costs in the deregulated industry. The U.S. can hardly compete in the international airways now, and bold steps are needed to hold the line domestically.

Most pilots are trained in the military at taxpayers' expense just like their brothers [and sisters] in the air traffic control towers. They have little invested in their careers from their own pockets. Unlike doctors and lawyers who struggles through the staggering costs of education and internships, pilots are paid well while they learn to fly for Uncle Sam. If the captains choose to bargain themselves out of competitive reach, responsible airlines must take decisive action to remain airborne and still make a buck.

As the service sector of the economy continues to grow and become more and more of the main thrust of our society, service employees must assume some of the responsibility for maintaining the competitive edge. If not, the same fate that has crippled domestic manufacturing will creep into the service industries: low productivity and high wages.

A detailed comparison through 1990 shows the employment picture between the two segments of the economy:

EMPLOYMENT
(in mil. persons)

| | Goods producing industries | Service producing industries |
|---|---|---|
| 1982 | 23.8 | 65.8 |
| 1983 | 23.4 | 66.7 |
| 1984 | 24.9 | 69.3 |
| 1985 | 25.4 | 71.4 |
| 1986 | 25.8 | 72.6 |
| 1987 | 26.2 | 73.8 |
| 1988 | 26.9 | 75.0 |
| 1989 | 27.0 | 76.9 |
| 1990 | 27.3 | 78.1 |

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *-------Employment-------* Total | Agricult. | Non agric. | Unemployment rate |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1984* | 237.4 | 113.5 | 105.0 | 3.4 | 101.6 | 7.52 |
| 1985:1 | 239.8 | 115.2 | 106.7 | 3.4 | 103.3 | 7.32 |
| 2 | 240.9 | 115.6 | 107.2 | 3.4 | 103.8 | 7.29 |
| 3 | 242.3 | 116.4 | 108.0 | 3.4 | 104.6 | 7.23 |
| 4 | 243.7 | 116.8 | 108.3 | 3.4 | 104.9 | 7.26 |
| YEAR | 241.7 | 116.0 | 107.5 | 3.4 | 104.2 | 7.28 |
| % change from '84 | 1.8 | 2.2 | 2.4 | 0.0 | 2.5 | -3.26 |
| 1986:1 | 244.5 | 117.3 | 108.7 | 3.4 | 105.3 | 7.29 |
| 2 | 245.5 | 118.6 | 109.9 | 3.4 | 106.5 | 7.36 |
| 3 | 246.4 | 119.0 | 110.4 | 3.4 | 107.0 | 7.24 |
| 4 | 247.7 | 120.5 | 111.8 | 3.4 | 108.4 | 7.21 |
| YEAR | 246.0 | 118.8 | 110.2 | 3.4 | 106.8 | 7.28 |
| % change from '85 | 1.8 | 2.5 | 2.5 | 0.0 | 2.5 | 0.00 |
| 1987:1 | 248.6 | 121.3 | 112.7 | 3.4 | 109.3 | 7.12 |
| 2 | 249.3 | 122.6 | 114.0 | 3.4 | 110.6 | 7.04 |
| 3 | 250.4 | 123.4 | 114.9 | 3.4 | 111.5 | 6.91 |
| 4 | 252.3 | 123.8 | 115.2 | 3.4 | 111.8 | 6.94 |
| YEAR | 250.2 | 122.8 | 114.2 | 3.4 | 110.8 | 7.00 |
| % change from '86 | 1.7 | 3.3 | 3.6 | 0.0 | 3.7 | -3.75 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

**Apartment starts up--single family starts stall.** Public financed multifamily projects distort true picture of the real estate landscape. While housing starts were up by 1.6% in April [seasonally adjusted annual rate = 1.9 mil. units], it is still below April '84 and due exclusively to apartment starts. Single family starts fell for the second consecutive month.

**KEDI** still sees a slower second half '85 than for the same period in '84, especially for single family units. The volatile nature of multifamily permits will probably fizzle out since investors jumped in before expected tax reforms.

While investors are waiting for mortgage rates to drop, **KEDI** has said for months that interest rates are at the bottom. This factor keeps the single family sector depressed because of the waiting game.

The significant indicator in the housing industry is still single family permits issued. As long as they continue to decline, builders will bide time hoping to sell their too-large inventory of new single family homes. This glut is apparent all across the country as prices slip caused by the pressure of builders to get out from under the heavy interest burden of holding the finished units with borrowed money.

## TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home ship-ments | Permits author-ized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1984* | 1.084 | .665 | .298 | 1.679 | 97.0 | 87.0 |
| 1985:1 | 1.111 | .681 | .299 | 1.709 | 101.6 | 87.9 |
| 2 | 1.109 | .695 | .302 | 1.619 | 103.7 | 90.4 |
| 3 | 1.149 | .684 | .304 | 1.531 | 105.8 | 92.5 |
| 4 | .951 | .583 | .289 | 1.479 | 106.6 | 95.6 |
| YEAR | 1.080 | .661 | .298 | 1.585 | 104.4 | 91.6 |
| % change from '84 | -.4 | -.6 | .2 | -5.6 | 7.7 | 5.3 |
| 1986:1 | .898 | .640 | .271 | 1.511 | 107.9 | 95.1 |
| 2 | 1.028 | .649 | .268 | 1.539 | 108.4 | 96.1 |
| 3 | 1.118 | .642 | .304 | 1.602 | 109.6 | 98.6 |
| 4 | 1.088 | .598 | .291 | 1.614 | 112.3 | 99.9 |
| YEAR | 1.031 | .632 | .283 | 1.567 | 109.5 | 97.4 |
| % change from '85 | -4.5 | -4.3 | -5.0 | -1.1 | 4.9 | 6.4 |
| 1987:1 | 1.146 | .669 | .286 | 1.584 | 113.8 | 102.3 |
| 2 | 1.288 | .684 | .308 | 1.675 | 115.9 | 103.1 |
| 3 | 1.310 | .686 | .319 | 1.880 | 117.9 | 104.6 |
| 4 | 1.185 | .651 | .307 | 1.812 | 120.3 | 105.8 |
| YEAR | 1.232 | .673 | .305 | 1.738 | 117.0 | 103.9 |
| % change from '86 | 19.5 | 6.4 | 7.6 | 10.9 | 6.8 | 6.7 |

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*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

**Detroit keeps asking Roger Staubach how to spell RELIEF,** while Japan sips saki and smiles smugly. But not for long as Lee Iacocca gets the hang of building and selling **small** cars. Chrysler seems to have more smarts than the **big two** put together, since it's the only domestic producer to post higher sales in 1985 over '84. Both GM and Ford are below last year's sales at this time as they continue to crank out the big gas guzzlers. Now they have to go back to Uncle Sam and ask for the ROLAIDS because they aren't meeting EPA requirement for overall fleet mileage requirements of 27 mpg. Meanwhile, **Mr. Confidence Himself** at Chrysler must be doing something right. But then, he's been doing it long enough. He should know the ropes by now.

Despite **KEDIs** forecast for the last several months that the auto cycle is a downside skid, Detroit shows astonishment at the May slump and is rethinking second half '85 production schedules. But then it seems most automakers can only see 10 days down the road. They go merrily along thinking that what's selling this week will surely sell **more** next week. Not so, eh Mr. Iacocca?

**KEDI** calls for a new auto cycle to rev up in 1988. This is how it will look:

| | Commerce Dept. Forecast | **KEDI** Forecast |
|---|---|---|
| U.S. Made | 6.4 mil. | 7.2 mil. |
| Japanese Imports | 4.1 mil. | 3.1 mil. |
| Other | .7 mil. | .6 mil. |
| Total Sales 1988 | 11.2 mil. | 11.1 mil. |

**KEDI** believes that Commerce is too pessimistic about U.S. production because:

* The government will legislate restrictions against the flood of imports.

* Competitiveness of U.S. automakers will improve in the small car sector.

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 10.4 | 8.0 | 2.4 | 1.4 | 8.0 | 3.3 |
| 1985:1 | 10.9 | 8.4 | 2.5 | 1.6 | 8.3 | 3.7 |
| 2 | 10.7 | 8.1 | 2.6 | 1.7 | 8.1 | 3.6 |
| 3 | 10.1 | 7.4 | 2.7 | 1.7 | 7.5 | 3.5 |
| 4 | 10.2 | 7.5 | 2.7 | 1.6 | 7.6 | 3.4 |
| YEAR | 10.5 | 7.8 | 2.6 | 1.6 | 7.9 | 3.5 |
| % change from '84 | .7 | -1.9 | 9.6 | 17.9 | -1.6 | 7.6 |
| 1986:1 | 10.0 | 7.3 | 2.7 | 1.6 | 7.4 | 3.4 |
| 2 | 10.2 | 7.5 | 2.7 | 1.5 | 7.6 | 3.7 |
| 3 | 10.2 | 7.3 | 2.9 | 1.6 | 7.5 | 3.5 |
| 4 | 10.4 | 7.5 | 2.9 | 1.5 | 7.7 | 3.6 |
| YEAR | 10.2 | 7.4 | 2.8 | 1.5 | 7.5 | 3.5 |
| % change from '85 | -2.6 | -5.7 | 6.5 | -9.1 | -4.1 | 0.0 |
| 1987:1 | 10.3 | 7.5 | 2.8 | 1.6 | 7.6 | 3.4 |
| 2 | 10.6 | 7.7 | 2.9 | 1.7 | 7.8 | 3.6 |
| 3 | 10.9 | 8.0 | 2.9 | 1.6 | 8.1 | 3.8 |
| 4 | 11.1 | 8.2 | 2.8 | 1.5 | 8.2 | 3.7 |
| YEAR | 10.7 | 7.8 | 2.8 | 1.5 | 7.9 | 3.6 |
| % change from '86 | 5.1 | 6.1 | 1.8 | 0.0 | 5.0 | 2.1 |

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*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

**Get set for a federal government that will only defend our shores, deliver our mail and write retirement checks.** Now that's something to shoot for in **KEDIs** estimation. That's what our founding fathers had in mind. Well . . . maybe not the retirement checks. At least we've got responsible people in Washington who are beginning to think along fundamental lines of the government preserving and defending our freedoms, instead of the last half century of pyramiding federal spending in the wrong direction. Still, there's Senator Kennedy, who recently said the Republicans "passed their unfair budget in the only way they could--in the middle of the night. Their harsh scheme to slash Social Security, Medicare, education and other essential programs can't stand the sunlight or the light of day." Keep it up Teddy and you'll soon have plenty of time to bask in the sunlight of Hyannis Port and Palm Beach.

The Congressional Joint Economic Committee divides the federal budget into five categories: defense and foreign affairs; aid for the elderly and disabled; net interest on the debt; assistance for the non-elderly poor; everything else.

That old Catch 22 **"everything else"** category includes just that--everything from the administrative burden of running the government on a daily basis to building new highways. **"Everything** else" has been pared by $25.8 billion since 1980, with another $34 billion cut from "everything else" in FY86. We see no hardship imposed by restricting guaranteed student loans to families with incomes of $60,000 or below. **GOOD GRIEF!** Nor do we find any hardship resulting from the sale of Conrail back to the private sector where it belongs. There's a **Baker's Dozen** of other programs about to come off the dole in Treasure II's package.

What we see is much needed, long awaited fiscal responsibility. Reagan believes government spending "is like that old definition of a baby--an enormous appetite at one end and no sense of responsibility at the other."

## TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----FEDERAL---------- | | * | *---STATE AND LOCAL----* | | |
|---|---|---|---|---|---|---|
| | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 315.0 | 70.9 | -175.7 | 120.3 | 19.1 | 53.0 |
| 1985:1 | 360.9 | 66.5 | -161.1 | 126.8 | 17.7 | 53.7 |
| 2 | 369.8 | 69.8 | -187.5 | 129.2 | 18.9 | 54.9 |
| 3 | 373.5 | 73.6 | -189.4 | 134.1 | 19.6 | 55.7 |
| 4 | 378.6 | 76.8 | -189.5 | 137.5 | 21.8 | 56.0 |
| YEAR | 370.7 | 71.7 | -181.9 | 131.9 | 19.5 | 55.1 |
| % change from '84 | 17.7 | 1.1 | 3.5 | 9.6 | 2.1 | 3.9 |
| 1986:1 | 385.9 | 77.0 | -185.4 | 138.6 | 22.8 | 57.2 |
| 2 | 391.4 | 77.8 | -181.6 | 141.0 | 23.5 | 58.6 |
| 3 | 399.8 | 81.3 | -177.3 | 144.0 | 23.7 | 60.3 |
| 4 | 414.3 | 83.9 | -174.6 | 148.9 | 24.1 | 63.7 |
| YEAR | 397.9 | 80.0 | -179.7 | 143.1 | 23.5 | 60.0 |
| % change from '85 | 7.3 | 11.6 | -1.2 | 8.5 | 20.6 | 8.9 |
| 1987:1 | 422.6 | 86.2 | -171.3 | 150.5 | 24.8 | 64.1 |
| 2 | 431.0 | 89.4 | -166.2 | 151.7 | 25.6 | 67.6 |
| 3 | 443.7 | 91.2 | -157.4 | 155.2 | 26.4 | 70.5 |
| 4 | 454.2 | 92.9 | -157.0 | 157.6 | 27.3 | 72.3 |
| YEAR | 437.9 | 89.9 | -163.0 | 153.8 | 26.0 | 68.8 |
| % change from '86 | 10.1 | 12.4 | -9.3 | 7.4 | 10.6 | 14.7 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

**The postman was a welcome sight in April as IRS checks filled mailboxes across the land,** boosting the Personal Disposable Income by 2.9%. Not only is **PDI** doing well, Personal Income [wages and salaries] is growing monthly at a modest steady pace of about .6%. This is all well and good but **KEDI** would be more comfortable if productivity could got pointed in the same direction. It is disturbing to watch productivity fall while personal income climbs. It can only push up the cost of goods and services while breeding inflation.

1985

| **Personal Income** | **Percent change from previous month** |
|---|---|
| January | +.6 |
| February | +.4 |
| March | +.5 |
| April | +.6 |
| May | +.7 |
| June | +.8 |
| July | +.6 |
| August | +.5 |
| September | +.4 |
| October | +.3 |
| November | +.4 |
| December | +.6 |

There is nothing in the cards at **KEDI** to burst this balloon. While PDI took a beating in February (-.8%) and March (-.5%), caused by computer snafus at IRS, this is only a glitch--certainly not a trend or indication of weakening in the economic recovery.

While many of our colleagues (58%) are in the mood for a mild recession in 1986, **KEDI** is having none of that gloom. Caution yes, if productivity doesn't get off it duff, but so long as inflation stays under control, as new jobs continue to grow, **KEDI** sees no reason for alarm through this year and next.

## TABLE 1.60

## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1984* | 3012.1 | 2576.9 | 2173.2 | 146.3 | 156.1 | 368.5 |
| 1985:1 | 3141.1 | 2653.4 | 2272.9 | 140.0 | 118.3 | 374.6 |
| 2 | 3244.1 | 2745.1 | 2318.1 | 146.5 | 154.3 | 377.5 |
| 3 | 3338.3 | 2830.7 | 2343.7 | 150.7 | 158.7 | 382.7 |
| 4 | 3391.4 | 2875.3 | 2365.2 | 158.3 | 154.2 | 387.1 |
| YEAR | 3278.7 | 2776.1 | 2325.0 | 148.9 | 146.4 | 380.5 |
| % change from '84 | 8.9 | 7.7 | 7.0 | 1.8 | -6.2 | 3.2 |
| 1986:1 | 3432.3 | 2907.8 | 2399.8 | 160.2 | 155.3 | 388.4 |
| 2 | 3518.8 | 2986.4 | 2457.2 | 164.5 | 159.7 | 390.6 |
| 3 | 3589.0 | 3045.2 | 2498.6 | 167.8 | 164.6 | 401.2 |
| 4 | 3636.0 | 3072.8 | 2458.4 | 173.7 | 168.3 | 409.7 |
| YEAR | 3544.0 | 3003.1 | 2453.5 | 166.6 | 162.0 | 397.5 |
| % change from '85 | 8.1 | 8.2 | 5.5 | 11.9 | 10.7 | 4.5 |
| 1987:1 | 3712.0 | 3138.9 | 2616.2 | 180.2 | 170.1 | 412.4 |
| 2 | 3786.0 | 3203.3 | 2676.1 | 184.3 | 169.6 | 418.6 |
| 3 | 3783.7 | 3274.8 | 2753.6 | 190.7 | 170.4 | 424.5 |
| 4 | 3972.8 | 3361.0 | 2842.0 | 194.7 | 173.2 | 428.1 |
| YEAR | 3813.6 | 3244.5 | 2722.0 | 187.5 | 170.8 | 420.9 |
| % change from '86 | 7.6 | 8.0 | 10.9 | 12.6 | 5.5 | 5.9 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

**PLEASE, MR. VOLCKER, EASY NO MORE! Wait until the economy really needs more funds in 1986.**

The Fed's easing of money and credit throws fuel on the flames of inflation.

Too much money
+ declining productivity
+ soaring labor costs
+ increasing crude materials
= **INFLATION**

**KEDI** urges the FED to ease no further. They will only have to turn the screw to tighten in the second half.

FED easing in late May is seen as a move to stimulate a lagging industrial sector. However, **KEDI** calls the easing a **temporary move** because there is just too much money available now. With Chairman Volcker vascilating from his neutral wait-and-see position, the easing caused an end-of-May surge in money supply in M1 and M2.

The three moving forces of the manufacturing sector [defense, autos and housing] are strong enough to prevent **stagflation**. Even though housing and autos are dropping off in cyclical fashion, they are still strong enough to keep manufacturing purring along. Defense will continue to grow for the next five years because of contracts let, and in the works.

**KEDI** finds disturbing trends in the money supply if further relaxation occurs: Money supply is already well above Fed's targets; Productivity is declining while labor costs climb; Increases in prices of services are already well above average rate of inflation. This holds down the wholesale price level for crude materials and agricultural products. However, when raw material costs start increasing, cost of goods manufactured will increase rapidly.

**KEDI** calls for discriminatory easing for the manufacturing segments in real need: metal mining, farm machinery, agricultural chemicals, textiles, oil refining and drilling equipment.

## TABLE 1.70

## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm.& indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 545.0 | 2277.4 | 477.0 | 470.7 | 416.8 | 554.9 |
| 1985:1 | 568.0 | 2416.3 | 473.1 | 472.3 | 423.4 | 560.4 |
| 2 | 574.9 | 2469.9 | 477.6 | 476.8 | 428.9 | 568.2 |
| 3 | 580.7 | 2521.2 | 485.3 | 490.4 | 434.6 | 579.4 |
| 4 | 588.1 | 2569.7 | 491.8 | 494.8 | 439.6 | 583.1 |
| YEAR | 577.9 | 2494.3 | 491.8 | 484.8 | 439.6 | 583.1 |
| % change from '84 | 6.0 | 9.5 | 3.1 | 3.0 | 5.5 | 5.1 |
| 1986:1 | 593.7 | 2641.6 | 499.6 | 495.9 | 449.5 | 588.2 |
| 2 | 599.6 | 2705.4 | 503.4 | 497.9 | 457.8 | 591.6 |
| 3 | 610.5 | 2769.8 | 507.6 | 505.3 | 459.8 | 598.7 |
| 4 | 618.9 | 2835.4 | 517.4 | 513.1 | 467.9 | 612.4 |
| YEAR | 605.7 | 2738.1 | 517.4 | 513.1 | 467.9 | 612.4 |
| % change from '85 | 4.8 | 9.8 | 5.2 | 5.8 | 6.4 | 5.0 |
| 1987:1 | 625.8 | 2895.7 | 521.3 | 515.2 | 472.6 | 615.1 |
| 2 | 633.6 | 2956.3 | 524.2 | 517.7 | 479.2 | 618.0 |
| 3 | 639.8 | 3009.8 | 528.7 | 523.4 | 488.7 | 627.2 |
| 4 | 648.5 | 3078.9 | 538.8 | 529.6 | 497.6 | 636.4 |
| YEAR | 636.9 | 2985.2 | 538.8 | 529.6 | 497.6 | 636.4 |
| % change from '86 | 5.2 | 9.0 | 4.1 | 3.2 | 6.3 | 3.9 |

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

**Give that drowning man a drink of water!**

**The FED said it lowered the discount rate to help boost** sagging **manufacturing output.** Let's hope that was their motive. And . . . let's hope the decrease in interest rates is short lived. If not, we'll all need mouth-to-mouth resuscitation from the overdose of surplus money flooding the market. **KEDI** sees this easing **only** to prime the manufacturing pumps that are being wallopped by cheap imports. If the lower rates can stimulate more efficient manufacturing facilities it is worthwhile; otherwise, it's merely an exercise in futility leading to disasterous economic consequences. Certainly the move wasn't made to bolster consumer confidence--it is already too high as Americans continue blightfully on their spending jag thinking there's no tomorrow. Well, there's a tomorrow alright Annie, but the sun may not shine as bright as she sings about if too much money continues to chase too few goods.

It's assumed that the recent FED action in lowering the discount rate is temporary. **KEDI** agrees [for a change], or should we say that Henry Kaufman of Salomon Brothers agrees with **KEDI** for a change, when he calls for interest rates to start climbing in the second half of this year. The upward move will not be dramatic but will last through first half '86, then, in '87 **KEDI** looks for interest rates to level and move downward more rapidly because:

- Federal budget cuts will be felt.
- Auto sales will need a boost.
- New housing construction will need primed.
- Less spending at state and local governments.

Stocks and bonds will have a good second half this year and continue well into 1986. **KEDI** sees the Dow at 1400 by yearend '86.

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1984* | 9.52 | 12.04 | 13.84 | 12.65 | 12.36 | 160.50 |
| 1985:1 | 8.34 | 10.48 | 13.29 | 12.06 | 11.41 | 177.45 |
| 2 | 8.01 | 10.11 | 13.27 | 12.04 | 11.49 | 184.15 |
| 3 | 7.74 | 10.07 | 13.30 | 12.11 | 11.65 | 188.72 |
| 4 | 8.56 | 10.48 | 13.46 | 12.28 | 11.74 | 179.48 |
| YEAR | 8.16 | 10.29 | 13.33 | 12.12 | 11.57 | 182.45 |
| % change from '84 | -14.3 | -14.6 | -3.7 | -4.2 | -6.4 | 13.7 |
| 1986:1 | 8.69 | 11.06 | 13.30 | 12.43 | 11.87 | 180.38 |
| 2 | 9.14 | 11.12 | 13.48 | 12.10 | 12.05 | 175.27 |
| 3 | 8.06 | 10.23 | 13.06 | 12.01 | 12.10 | 177.43 |
| 4 | 10.02 | 12.87 | 12.87 | 11.73 | 12.25 | 184.61 |
| YEAR | 8.98 | 11.32 | 13.18 | 12.07 | 12.07 | 179.42 |
| % change from '85 | 10.0 | 10.1 | -1.1 | -.5 | 4.3 | -1.7 |
| 1987:1 | 7.72 | 9.83 | 12.42 | 11.42 | 11.64 | 187.28 |
| 2 | 7.16 | 9.45 | 12.36 | 10.85 | 11.13 | 189.32 |
| 3 | 7.04 | 9.32 | 12.21 | 10.63 | 11.06 | 188.47 |
| 4 | 7.13 | 9.10 | 12.14 | 10.76 | 11.28 | 189.51 |
| YEAR | 7.26 | 9.43 | 12.28 | 10.91 | 11.28 | 188.64 |
| % change from '86 | -19.1 | -16.7 | -6.8 | -9.6 | -6.5 | 5.1 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

## 8.0 SIMULATION OF MARKETS AND COMMODITIES

The ability to simulate the behavior of buyers and sellers at a market for a commodity is a typical and unique feature of the Kent Economic Forecasting System. It has been developed after years of research and testing. Currently, it is used in forecasting the expected prices and amounts of commodities traded on markets for coal, copper, stainless steel, automobiles, garments, and other commodities for **KEDI** clients.

### What is Market Simulation?

Many techniques used in forecasting the amounts that will be sold and prices charged are based on an historical approach: The forecaster takes some past data on sales of the firm's products, say, for the past five to ten years, and projects the trend of those past years into the future. If, in the past five years, sales of microwave ovens had been increasing by 3% each year, and the price had been increasing by 2% each year, in the next year the firm would sell 3% more microwave ovens for about 2% more. This overly-simplistic example typifies historically-based forecasts of projecting the past into the future. This may be useful in cases where regular trends are predictable, and some of these models are time efficient because the results are fast without complicated calculations. Such methods fail to produce reliable results with irregular trends because in business, history repeats itself but always with difference.

### Market Simulation Approach

In forecasting the amounts that will be sold and prices paid, you can't rely on the past. Instead, the forecaster simulates the future demand and supply of a given product by looking at factors that will affect the buyers' and sellers' decisions to purchase and sell, and at what price. The forecasted price and quantity are then the results of such decisions.

## THE KENT ECONOMIC FORECASTING SYSTEM

In the Kent Economic Forecasting System, the following factors are considered:

**Buyers' and Sellers' Intentions.** Step one is to forecast the amount buyers intend to buy, prices they are willing to pay, amounts sellers plan to offer, and prices they intend to charge.

**Market Simulation Factors.** The second step brings together the different intentions of buyers and sellers into a market simulation. This is done by considering:

- Impact of external factors--changes in tastes, expected profits, general conditions of the economy and others.
- Impact of internal factors--changes in prices and quantities of related commodities. For example, if the price of Coca Cola goes up will buyers switch to Pepsi, or will they drink more Sprite? And how much?

A market simulation considers all these factors of the real world. It is not a mechanical projection of the past into the future, but rather a putting together of all factors that can rationally affect the amounts and prices in the future.

Current forecasts for a variety of commodities and markets are producing highly accurate results because they are based on a realistic approach. They are based on how businesses think and act.

At the present time **KEDI** is preparing a software package for users to do their own forecasting of any type of commodity market on their own personal computers.

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Federal Government Purchases in 1984** has been selected for comparison. The actual figure is in the April, 1985 issue of the **Survey of Current Business** (U. S. Department of Commerce, Washington, DC, monthly). Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Federal Government Purchases, 1984, bil. $)
Actual figure: 295.4

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Georgia State University, p. 21 | 11/83 | 319.6 | 8.2 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 312.0 | 5.6 |
| Research Seminar in Quantitative Economics, Univ.of Michigan, p.24 | 11/17/83 | 309.7 | 4.8 |
| UCLA Business Forecasting Project, p.26 | 12/83 | 307.8 | 4.2 |
| Citicorp Information Service, p. 27 | 12/1/83 | 303.1 | 2.6 |
| Metropolitan Life Insurance Co., p.28 | 12/1/84 | 310.9 | 5.2 |
| Fidelity Bank, p. 32 | 12/19/83 | 300.2 | .6 |
| Evans Economics, Inc., p. 34 | 12/22/83 | 307.5 | 4.1 |
| Data Resources, Inc., p. 36 | 12/24/83 | 306.9 | 1.4 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **295.3** | **0** |
| Lehman Bros, Kuhn Loeb, Inc., p. 40 | 1/5/84 | 299.4 | 1.4 |
| The Equitable Life Assurance Society of the U.S., p. 42 | 1/9/94 | 297.6 | .7 |
| Standard & Poors Corp, p. 44 | 1/12/84 | 307.8 | 4.2 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 303.8 | 2.8 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

### HISTORICAL DATA SOURCES

| **Table Number** | **Data Series** | **Source** |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

TABLE 3.00

**HISTORICAL DATA SOURCES (CONTINUED)**

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:**Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:**Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

JULY 1, 1985

Prepared by the staff of

**Kent Economic and Development Institute, Inc.**

P.O. Box 99

Tallmadge, Ohio 44278

(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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**WORD WORKS**
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(216) 678-8215

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## CONTENTS

Page

**0.00 Introduction**

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

**1.00 Detailed Forecasts**

1.10 Real Growth 6
1.20 Prices and Nominal GNP
  1.21 Prices 8
  1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
  1.41 Housing 14
  1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24

**2.00 The Kent Economic Forecasting System (continued)** 26

**3.00 Comparisons of Accuracy of Predictions** 28

**4.00 Historical Data Sources** 29

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29

**SOURCES:**

U.S.Department of Commerce third estimates of 1985:1 National Income and Product data, June 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, June 1985.

The lastest available data on prices, employment, industrial, and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

### Highlights

Take me out to the ball game. Take me out with the crowd. The **FED** battles **INFLATION.**

### Real Growth

The **SPMDBCDP** puts a muzzle and leash on "flash estimates."

### Prices

A seemingly permanent turnaround in inflation is the economic miracle of the decade. **Hold on just a minute . . .**

### Employment & Labor

We're off to see the Wizard, the wonderful Wizard of Jobs.

### Housing

Hammering halting as housing hurts, while overbuilding in office construction continues it's speculative roll of the dice.

### Automobiles

**Import companies have gobbled up nearly 25% of total car sales.**

### Budgets

O-o-oh say, can you see, an-y loop-hole for me?

### Income

Low interest rates have done little to encourage savings as the spending beat goes on.

### Money & Credit

Tally Ho! is the cry of the ride to the hounds--with the **fox at a** decided disadvantage.

### Interest Rates, Yields & Security Prices

For it's one...two...three strikes your OUT!
At the **old ball game.**

## 0.02 OVERVIEW

### Interest Rates

### The FED vs INFLATION

**Take me out to the ball game.**
**Take me out with the crowd. . .**

. . .It's the top of the ninth! A "no hitter" in progress as the **FED** and **INFLATION** battle it out in the seventh game of the World Series. Only two errors committed by the **FEDS** so far by lowering the prime rate.

Stats for both teams equal:

- Interest rates in a slump below normal for the season.
- Economy having a good year on the mound.
- 3.1% growth in GNP for 2nd quarter, this season.
- Healthy batting practice in orders for durables.
- Good activity in nonresidential building bullpen.
- Productivity sluggish--as usual.

Top of the batting order up for **INFLATION.** Recent errors by the **FED** makes **INFLATION** impatient. Should they go for the bunt, or hit one out of the park? **INFLATION** just might win this series if the **FED** eases up on monetary policies again. But, **INFLATION** has been behaving so well, **FED** Coach Volcker doesn't know how to field his team. Should he pull the infield close and play them tight, or signal his outfield deep and relax? Coach Volcker ponders his options:

- Will construction finish the season without a serious slump?
- Auto sales are hitting lower than last year.
- Industries just getting by, showing no signs of growth.
- When will Economy need relief on the mound? If he keeps Interest Rates down, where will he find a relief pitcher when Economy slumps.

(Continued on page 24.)

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

| Indicator | Unit | 1985 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| Gross national product, p. 7 | bil.72$ | 1689.8 | 1864.8 | 1931.9 | 1972.5 |
| | % change | 3.0 | 3.8 | 3.6 | 2.1 |
| Index of industrial production, p. 7 | 1967=100 | 168.4 | 188.8 | 198.4 | 207.0 |
| | % change | 3.1 | 4.9 | 5.1 | 4.3 |
| Capacity utilization, p. 7 | % | 81.3 | 82.8 | 81.8 | 80.9 |
| | % change | -.5 | 1.1 | -1.2 | -1.1 |
| Unemployment rate, p. 7 | % | 7.28 | 6.71 | 6.78 | 6.75 |
| | % change | -3.3 | -4.2 | 1.1 | .8 |
| Private housing starts, p. 7 | mil. units | 1.749 | 2.045 | 1.975 | 1.928 |
| | % change | -.1 | 9.7 | -3.4 | -2.4 |
| Car sales, p. 7 | mil. units | 10.5 | 11.8 | 11.7 | 11.6 |
| | % change | .7 | 9.9 | -.7 | -1.1 |
| Implicit GNP price deflator, p. 9 | 1972=100 | 233.3 | 270.0 | 284.6 | 298.3 |
| | % change | 4.5 | 5.2 | 5.4 | 4.8 |
| Consumer price index, p. 9 | 1967=100 | 321.6 | 371.1 | 392.3 | 412.3 |
| | % change | 3.4 | 5.5 | 5.7 | 5.1 |
| Producer price index (finished goods), p.9 | 1967=100 | 269.0 | 356.8 | 378.9 | 393.7 |
| | % change | 2.0 | 6.7 | 6.2 | 3.9 |
| Federal deficit, p. 19 | bil. $ | -181.9 | -152.4 | -130.1 | -119.5 |
| | % change | 3.5 | -6.3 | -14.6 | -8.2 |
| Personal income, p. 21 | bil. $ | 3278.7 | 4124.4 | 4458.5 | 4810.7 |
| | % change | 8.9 | 8.8 | 8.1 | 7.9 |
| Prime rate, p. 25 | % | 10.29 | 8.38 | 8.96 | 9.47 |
| | % change | -14.6 | -10.6 | 6.9 | 5.7 |
| Mortgage rate, p. 25 | % | 13.33 | 11.10 | 11.48 | 11.03 |
| | % change | -3.7 | -2.8 | 3.4 | -3.9 |
| Currency plus demand deposits, p.23 | bil. $ | 577.9 | 677.8 | 717.1 | 752.3 |
| | % change | 6.0 | 6.4 | 5.8 | 4.9 |
| Commercial and industrial loans, p.23 | bil. $ | 494.8 | 562.6 | 581.7 | 595.1 |
| | % change | 3.0 | 6.2 | 3.4 | 2.3 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged:

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the May 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more sustainable level in 1987.

## TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unemployment rate | Capacity util'n rate | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1967=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 163.3 | 7.5 | 81.7 | 1.749 | 10.4 |
| 1985:1* | 1663.5 | 165.2 | 7.3 | 81.1 | 1.793 | 10.9 |
| 2 | 1680.7 | 167.3 | 7.3 | 81.1 | 1.776 | 10.5 |
| 3 | 1696.2 | 169.4 | 7.2 | 81.4 | 1.800 | 10.0 |
| 4 | 1707.1 | 170.5 | 7.3 | 81.3 | 1.491 | 10.1 |
| YEAR | 1686.9 | 168.1 | 7.3 | 81.2 | 1.715 | 10.4 |
| % change from '84 | 2.9 | 2.9 | -3.0 | -.6 | -1.9 | -.2 |
| 1986:1 | 1715.4 | 171.3 | 7.3 | 81.1 | 1.526 | 9.9 |
| 2 | 1725.7 | 172.0 | 7.4 | 81.2 | 1.651 | 10.2 |
| 3 | 1738.4 | 174.1 | 7.3 | 81.3 | 1.733 | 10.2 |
| 4 | 1752.1 | 177.4 | 7.2 | 81.1 | 1.651 | 10.3 |
| YEAR | 1732.9 | 173.7 | 7.3 | 81.2 | 1.652 | 10.2 |
| % change from '85 | 2.7 | 3.3 | .3 | -.1 | -3.7 | -2.2 |
| 1987:1 | 1770.1 | 178.1 | 7.1 | 81.2 | 1.776 | 10.3 |
| 2 | 1788.5 | 180.6 | 7.1 | 81.9 | 1.880 | 10.6 |
| 3 | 1807.3 | 183.4 | 6.9 | 82.5 | 1.982 | 10.9 |
| 4 | 1820.1 | 186.9 | 6.8 | 82.4 | 1.816 | 11.0 |
| YEAR | 1796.5 | 182.2 | 7.0 | 82.0 | 1.863 | 10.7 |
| % change from '86 | 3.7 | 4.9 | -4.5 | 1.0 | 12.8 | 5.4 |

*Historical data.

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

The Society for the Prevention of Mad Dogs Barking at the Commerce Dog Pound, or SPMDBCDP, as we call it at **KEDI** has been complaining about the irractic howling of "flash estimates" for several months. Estimates have been misleading, misrepresentative of reliable data--even depressing about future **real growth**.

And then along comes "flash estimates," yelping more tamely, telling us that the second quarter looks like 3.1% growth. Now, that's more like it! **KEDI** has been forecasting 3% real growth for this period since Moby Dick was a minnow.

Well, it seems the SPDMBDCDP may have been heard at last. Commerce Secretary Baldrige, ole "flash estimates" boss has come out to acknowledge that "the worst of the slowdown probably is behind us and we should be back on a higher growth path by summer's end."

Please, Mr. Baldrige, what slowdown?

* Building activity has been strong all year!
* Machine tools continue strong, despite **import-itis!**
* Durable goods grow by 3.2%!
* Non-durables increase a modest .9%
* Steel production, one of **KEDIs** strong indicators, carrys strong performance into mid-June.

**KEDI** continues to forecast moderate, sustained growth through 1986. Don't look for flattening, declines or stagflation. It's just not on the horizon in light of the fine tuning constantly taking place. Corporations are learning how to control inventories and deal with productivity problems. Let us emphasize **learning!** Not out of the woods yet, but learning.

## TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 1062.4 | 289.7 | -5.0 | 122.5 | 179.6 |
| 1985:1* | 1663.5 | 1089.1 | 292.1 | -28.4 | 129.8 | 180.9 |
| 2 | 1680.7 | 1096.2 | 296.7 | -26.1 | 130.4 | 183.5 |
| 3 | 1696.2 | 1105.6 | 298.1 | -25.3 | 131.9 | 185.9 |
| 4 | 1707.1 | 1108.5 | 300.4 | -23.4 | 132.9 | 188.7 |
| YEAR | 1686.9 | 1099.8 | 296.8 | -25.8 | 131.2 | 184.8 |
| % change from '84 | 2.9 | 3.5 | 2.5 | 416.0 | 7.1 | 2.9 |
| 1986:1 | 1715.4 | 1115.8 | 299.4 | -23.4 | 134.2 | 189.4 |
| 2 | 1725.7 | 1119.6 | 302.2 | -22.7 | 135.3 | 191.3 |
| 3 | 1738.4 | 1122.6 | 305.8 | -21.3 | 137.6 | 193.7 |
| 4 | 1752.1 | 1127.4 | 311.7 | -23.8 | 140.9 | 195.9 |
| YEAR | 1732.9 | 1121.4 | 304.8 | -22.8 | 137.0 | 192.6 |
| % change from '85 | 2.7 | 2.0 | 2.7 | -11.6 | 4.4 | 4.2 |
| 1987:1 | 1770.1 | 1133.7 | 317.2 | -20.5 | 142.9 | 196.8 |
| 2 | 1788.5 | 1143.7 | 324.3 | -21.4 | 144.5 | 197.4 |
| 3 | 1807.3 | 1150.3 | 328.0 | -18.3 | 147.2 | 200.1 |
| 4 | 1820.1 | 1153.5 | 330.0 | -16.4 | 149.1 | 203.9 |
| YEAR | 1796.5 | 1145.3 | 324.9 | -19.1 | 145.9 | 199.6 |
| % change from '86 | 3.7 | 2.1 | 6.6 | -16.0 | 6.5 | 3.6 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

**Productivity continues to decline!** It continues to be the shackles at our ankles in our slow, steady, prosperous crawl into the 21st century.

It's not enough that laziness (you know, that old featherbedding bunk that wrecked the railroads) has all but immobilized manufacturing; now it's reigning havoc in the service industries. Prices of services are leaping at alarming rates. If these pressure persist, we can expect to add a couple of point to the rate of inflation.

While John Albertine, president of the American Business Conference, brags that "the seemingly permanent turnaround in inflation is the economic miracle of the decade," **KEDI** warns that the decade is only half over. Even Mr. Albertine qualified his comment with **seemingly.**

The only saving grace in all of this is the sensible performance of the PPI. Since it is basically controlled by prices for crude materials, inflation is contained while prices for raw materials remain flat. But, there's a klinker! **KEDI** sees upward pressure in raw material prices next year in the 9-10% range over 1985, assuming:

* The dollar stays strong internationally
* The Fed does not ease monetary and credit conditions

But, if the dollar drops by 10% and the Fed continues its expansionary folly, prices for crude materials will jump about 15%. That would bring the inflation rate to 8-9% in 1987. Then, we'd be right back in double digit inflation again. **KEDI** does not expect this to happen.

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | *---Indexes--* |  | *-------Price deflators--------* |  |  |  |
|---|---|---|---|---|---|---|
|  | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1972= 100 | 1972= 100 | 1972= 100 | 1972= 100 |
| Year & Qtr. |  |  |  |  |  |  |
| 1984* | 311.1 | 291.2 | 223.4 | 220.4 | 241.1 | 251.7 |
| 1985:1* | 317.4 | 292.5 | 229.1 | 224.7 | 246.5 | 261.0 |
| 2 | 319.7 | 294.7 | 231.6 | 228.8 | 249.1 | 263.3 |
| 3 | 322.7 | 298.6 | 234.8 | 233.0 | 251.2 | 265.2 |
| 4 | 326.9 | 302.5 | 237.7 | 237.0 | 254.1 | 266.4 |
| YEAR | 321.7 | 297.1 | 233.3 | 230.9 | 250.2 | 264.0 |
| % change from '84 | 3.4 | 2.0 | 4.4 | 4.7 | 3.8 | 4.9 |
| 1986:1 | 329.6 | 305.3 | 240.2 | 238.6 | 256.0 | 268.6 |
| 2 | 332.7 | 312.9 | 243.6 | 243.7 | 258.8 | 272.3 |
| 3 | 335.4 | 317.7 | 246.4 | 247.5 | 261.7 | 275.4 |
| 4 | 340.0 | 332.4 | 248.3 | 249.2 | 264.8 | 279.1 |
| YEAR | 334.4 | 317.1 | 244.6 | 244.7 | 260.3 | 273.9 |
| % change from '85 | 4.0 | 6.7 | 4.9 | 6.0 | 4.0 | 3.7 |
| 1987:1 | 345.4 | 326.1 | 251.6 | 253.4 | 266.2 | 281.5 |
| 2 | 350.2 | 330.7 | 254.2 | 256.8 | 269.9 | 284.8 |
| 3 | 354.4 | 337.0 | 258.2 | 261.7 | 273.4 | 287.9 |
| 4 | 357.2 | 343.9 | 262.9 | 249.6 | 276.3 | 391.4 |
| YEAR | 351.8 | 334.4 | 256.7 | 255.4 | 271.4 | 311.4 |
| % change from '86 | 5.2 | 5.5 | 4.9 | 4.4 | 4.3 | 13.7 |

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*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

Personal spending looks like a drunken sailor on shore leave. Personal Consumption Expenditures--the biggest chunk of the GNP--will continue to climb through the rest of this year and next. Only in the first half of 1987 will it ease up, effected by:

* Lower increments in employee compensation
* Fewer auto sales
* Drop in most other durable sales

The Gross Private Domestic Investment forecast shows little change caused by:

* Residential construction
* Fixed business investment
* Inventory adjustments

Net exports! Ah, what a pain where pills won't reach! Forecast data says we're going to have to grin and bear it through 1986. **KEDI** sees the plop-plob, fiz-fiz, oh what a relief it is starting to appear in 1987 as the balancing act comes on stage. We'll walk the tight rope and forecast:

| Year | **Net export decline over previous year** |
|---|---|
| 1988 | 13.2% |
| 1989 | 16.1% |
| 1990 | 18.7% |

Isn't that music to the ears?

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product---------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 3662.2 | 2341.8 | 637.9 | -64.2 | 295.3 | 452.1 |
| 1985:1* | 3811.1 | 2446.7 | 646.8 | -74.5 | 320.0 | 455.3 |
| 2 | 3892.5 | 2508.6 | 650.7 | -74.8 | 324.8 | 483.2 |
| 3 | 3982.7 | 2575.5 | 656.3 | -73.5 | 331.3 | 493.0 |
| 4 | 4057.8 | 2627.0 | 662.8 | -72.4 | 337.7 | 502.7 |
| YEAR | 3935.5 | 2539.0 | 654.1 | -73.8 | 328.5 | 483.5 |
| % change from '84 | 7.5 | 8.4 | 2.5 | 15.0 | 11.2 | 7.0 |
| 1986:1 | 4120.4 | 2661.9 | 670.5 | -64.3 | 343.6 | 508.7 |
| 2 | 4203.8 | 2728.8 | 671.4 | -67.5 | 350.2 | 520.9 |
| 3 | 4283.4 | 2778.1 | 677.0 | -65.2 | 360.1 | 533.4 |
| 4 | 4350.5 | 2809.2 | 683.8 | -62.4 | 373.1 | 546.8 |
| YEAR | 4239.1 | 2744.3 | 675.7 | -64.8 | 356.7 | 527.5 |
| % change from '85 | 7.7 | 8.1 | 3.3 | -12.1 | 8.6 | 9.1 |
| 1987:1 | 4453.6 | 2873.3 | 707.4 | -61.5 | 380.4 | 554.0 |
| 2 | 4546.4 | 2937.1 | 716.9 | -59.8 | 390.0 | 562.2 |
| 3 | 4666.4 | 3010.6 | 732.4 | -55.1 | 402.4 | 576.1 |
| 4 | 4785.0 | 2879.6 | 751.8 | -56.4 | 412.0 | 798.1 |
| YEAR | 4612.1 | 2925.6 | 727.1 | -58.2 | 396.2 | 622.6 |
| % change from '86 | 8.8 | 6.6 | 7.6 | -10.3 | 11.1 | 18.0 |

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*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

We're off to see the Wizard, the wonderful Wizard of JOBS. As Dorothy reaches the fork in the road, one sign points to **SERVICES**, the other **MANUFACTURING**.

"Oh where is the Wizard? We need jobs. We need to find our way down both paths," Dorothy laments, while shrugs of helplessness come from the Cowardly Lion, the brainless Scarecrow, and the heartless Tinman.

A little ways down the path of **MANUFACTURING**, throughout 1986, disturbing signs appear:

* Mining flat!
* Drops in textiles, clothing, and leather goods.
* Declines in ferrous metals, farm machinery and equipment, agriculture chemicals and tobacco
* Sags in stone, clay, glass and petroleum industries

"Oh, let's turn back, I don't like this path," Dorothy complains. "There's no work for us here."

"Let's go just a little further. It might get better," offers the Cowardly Lion. Sure enough, signs improved:

* No change for rubber, paper, printing and publishing, electrical and non-electrical machinery, as well as lumber
* Up a little for drugs, furniture and fixtures and consumer durables.

"Here's a good sign," leaps the Scarecrow with glee:

* Help wanted in defense, aerospace, advanced technology, food and food processing

"But you don't have the brains for those jobs," admonishes the Tinman, "we'll have to go back to the other path."

Down the yellow brick road of **SERVICES**, the quartet shopped for plenty of **help wanted** jobs in:

* Retail and wholesale trade
* Fast food
* Health services
* Business, consulting, legal and banking services
* Personal, transportation and communication services

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Non agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1984* | 237.4 | 113.5 | 105.0 | 3.4 | 101.6 | 7.50 |
| 1985:1* | 239.8 | 115.2 | 106.8 | 3.4 | 103.4 | 7.30 |
| 2 | 240.9 | 115.6 | 107.2 | 3.4 | 103.8 | 7.30 |
| 3 | 242.3 | 116.3 | 107.9 | 3.4 | 104.5 | 7.20 |
| 4 | 243.7 | 116.9 | 108.4 | 3.4 | 105.0 | 7.30 |
| YEAR | 241.7 | 116.0 | 107.6 | 3.4 | 104.2 | 7.28 |
| % change from '84 | 1.8 | 2.2 | 2.3 | 0.0 | 2.3 | -3.00 |
| 1986:1 | 244.5 | 117.5 | 108.9 | 3.4 | 105.5 | 7.30 |
| 2 | 245.5 | 118.6 | 109.8 | 3.4 | 106.4 | 7.40 |
| 3 | 246.4 | 119.2 | 110.5 | 3.4 | 107.1 | 7.30 |
| 4 | 247.7 | 120.8 | 112.1 | 3.4 | 108.7 | 7.20 |
| YEAR | 246.0 | 119.0 | 110.3 | 3.4 | 106.9 | 7.30 |
| % change from '85 | 1.8 | 2.6 | 2.6 | 0.0 | 2.6 | .34 |
| 1987:1 | 248.6 | 121.4 | 112.8 | 3.4 | 109.4 | 7.10 |
| 2 | 249.3 | 122.2 | 113.5 | 3.4 | 110.1 | 7.10 |
| 3 | 250.4 | 123.1 | 114.6 | 3.4 | 111.2 | 6.90 |
| 4 | 252.3 | 123.3 | 114.9 | 3.4 | 111.5 | 6.80 |
| YEAR | 250.2 | 122.5 | 114.0 | 3.4 | 110.6 | 6.97 |
| % change from '86 | 1.7 | 2.9 | 3.0 | 0.0 | 3.0 | -4.45 |

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*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

Hammering halting as housing hurts, while overbuilding in office construction continues it's speculative roll of the dice.

In May, housing starts dropped from April's 1.927 million units (annualized) to 1.663 million. A significant decline and one that **KEDI** has forecast for a long time. The trend is a repeat from last year: first half good, second half weak.

This drop is 150,000 units less than May of last year.

Even though housing data rides a roller coaster from month to month, the data clearly points to further declines for housing. The slide will be gradual and housing will still perform satisfactorily by historical standards. Thankfully, it is not going to be an area of major concern for the overall economy.

While interest rates are still low, sales of new homes will remain strong this year and next leaving inventories of unsold homes at high, but tolerable levels. Sales remain brisk with a 9.7% gain in May leading to remarks from Washington that the gain was a "strong resumption of steady growth." However, **KEDI** is less optimistic than Jack Carlson, chief economist for the National Association of Realtors who claims that 650,000 new homes will be sold in 1985, or a 1.8% gain over the 637,000 of last year.

**KEDI** calls for 610,000 new homes sold this year.

## TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1984* | 1.084 | .665 | .298 | 1.679 | 97.0 | 87.0 |
| 1985:1* | 1.112 | .681 | .299 | 1.709 | 99.6 | 87.9 |
| 2 | 1.094 | .682 | .302 | 1.617 | 102.5 | 90.3 |
| 3 | 1.129 | .671 | .283 | 1.522 | 104.3 | 92.4 |
| 4 | .931 | .560 | .271 | 1.470 | 105.1 | 95.3 |
| YEAR | 1.067 | .649 | .289 | 1.579 | 102.9 | 91.5 |
| % change from '84 | -1.6 | -2.5 | -3.1 | -5.9 | 6.1 | 5.1 |
| 1986:1 | .894 | .632 | .252 | 1.483 | 106.9 | 95.3 |
| 2 | 1.011 | .640 | .259 | 1.530 | 107.4 | 95.6 |
| 3 | 1.102 | .631 | .276 | 1.601 | 108.2 | 97.8 |
| 4 | 1.071 | .580 | .283 | 1.615 | 110.3 | 99.2 |
| YEAR | 1.031 | .621 | .268 | 1.557 | 108.2 | 97.0 |
| % change from '85 | -3.3 | -4.3 | -7.4 | -1.4 | 5.2 | 6.0 |
| 1987:1 | 1.122 | .654 | .270 | 1.586 | 111.6 | 101.2 |
| 2 | 1.210 | .670 | .300 | 1.679 | 114.0 | 102.8 |
| 3 | 1.302 | .680 | .311 | 1.883 | 116.9 | 103.7 |
| 4 | 1.174 | .642 | .307 | 1.815 | 118.7 | 105.3 |
| YEAR | 1.202 | .661 | .297 | 1.741 | 115.3 | 103.2 |
| % change from '86 | 16.6 | 6.6 | 11.0 | 11.8 | 6.6 | 6.5 |

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

. . . Overheard at a recent geisha party, the Messr. Nissan and Honda discuss the future of their empires:

"So glad Yankee congress too busy on budget," smiles Honda-san, as the geisha graciously pours warm Saki.

"Hai, hai," nods Nissan-san in agreement, "too busy for talk about imports. They forget about sanctions. We ship all possible units while still got chance."

"Hai, hai. Reagansan too busy selling new income tax package and talking to, what his name, Nobiberrysan. Who he?" Honda-san winks.

The dialogue continues while the geisha party lingers on in its own traditional way. Everyone in kimono seated around large friendly table.

They ponder and plot as the import-export gap grows and Detroit groans. The import companies have gobbled up nearly 25% of total car sales in the United States.

Think of it!

In 1986 domestic car sales will drop into deeper trouble as total sales decline by 8.7% compared to the present rate of decline at 2.2%. Sales will increase then, but only by 3.6% in 1987, with imports expected to carve out even larger percentages unless our government acts to curb the steady stream of boats unloading new cars in our seaports.

Since Honda and Volkswagen assembly cars in the US, they are included in the following domestic production forecast:

| | Percent | Share of | Domestic Market |
|---|---|---|---|
| | 1985 | 1986 | 1987 |
| GM | 60.3 | 57.9 | 54.7 |
| Ford | 23.7 | 23.9 | 24.7 |
| Chrysler | 12.0 | 14.0 | 15.9 |
| Honda | 1.8 | 2.0 | 2.3 |
| AMC | 1.2 | 1.3 | 1.5 |
| Volkswagen | 1.0 | .9 | .9 |
| Total | 100.0 | 100.0 | 100.0 |

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 10.4 | 8.0 | 2.4 | 1.4 | 8.0 | 3.3 |
| 1985:1* | 10.9 | 8.4 | 2.5 | 1.6 | 8.3 | 3.7 |
| 2 | 10.5 | 7.9 | 2.6 | 1.7 | 8.1 | 3.5 |
| 3 | 10.0 | 7.3 | 2.7 | 1.8 | 7.6 | 3.4 |
| 4 | 10.1 | 7.5 | 2.6 | 1.7 | 7.7 | 3.4 |
| YEAR | 10.4 | 7.8 | 2.6 | 1.7 | 7.9 | 3.5 |
| % change from '84 | -.2 | -8.8 | 8.5 | 21.4 | -.9 | 6.1 |
| 1986:1 | 9.9 | 7.2 | 2.7 | 1.6 | 7.4 | 3.4 |
| 2 | 10.2 | 7.5 | 2.7 | 1.5 | 7.6 | 3.6 |
| 3 | 10.2 | 7.3 | 2.9 | 1.7 | 7.5 | 3.4 |
| 4 | 10.3 | 7.5 | 2.8 | 1.6 | 7.7 | 3.3 |
| YEAR | 10.2 | 7.4 | 2.8 | 1.6 | 7.5 | 3.4 |
| % change from '85 | -2.2 | -8.7 | 6.5 | -5.3 | -4.7 | -2.1 |
| 1987:1 | 10.3 | 7.5 | 2.8 | 1.6 | 7.6 | 3.4 |
| 2 | 10.6 | 7.7 | 2.9 | 1.7 | 7.8 | 3.7 |
| 3 | 10.9 | 8.0 | 2.9 | 1.6 | 8.1 | 3.8 |
| 4 | 11.0 | 8.3 | 2.7 | 1.5 | 8.2 | 3.7 |
| YEAR | 10.7 | 7.9 | 2.8 | 1.5 | 7.9 | 1.5 |
| % change from '86 | 5.4 | 3.6 | 1.8 | -6.8 | 5.0 | -56.2 |

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*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

O-o-oh say can you see, An-y loop-holes for me?
What so proud-ly we hailed, Prob-ab-ly will nev-er be.
With the rock-ets red flare, And bombs burst-ing in air,
Gives proof through the fight, That the lobby-ists are there.
Oh, say, does that Star Spangl-ed Ban-an-ner yet wa-a-a-ve,
'Ore the La-a-nd of the Free, But, what's in-n it for me?

And so, this Fourth of July as everyone tries to sing the lyrics to the national anthem, many will improvise their own: **Go after the other guy's loopholes, but don't bother mine!**

The Congressional Budget Office said late in June that the President's tax proposal package would generate $23 billion less than estimated by Treasury between 1986 and 1990. That would equate to a $35 billion revenue loss compared to current tax laws. The CBO has a poor track record as far as its forecasts are concerned and this one is no exception.

After a close look at Treasury's Proposal, **KEDI** finds:

* At the proposed 33% corporate profits tax rate, $40 billion **more** would be collected than projected by Treasury between 1986-1990.

* CBO overestimated the expected inflation rate from 1986-1990 by 1.5-2.0% more than **KEDI** forecasts. This higher inflation rate means higher writeoffs, lower profits--less taxes.

So **KEDI** finds that Treasury understates income potential, and CBO overstates inflation rate. Even dropping corporate profits tax to 30%, instead of 33% proposed by Treasury, more revenue would be generated than under present tax laws and depreciation schedules. This leaves the Administration with a lot of bargaining flexibility that hasn't even come to light yet.

At the state and local levels, **KEDI** reaffirms its forecast that these surpluses will continue climbing through 1990, with a declining federal deficit bringing the combined government section to a balance of approximately $100 billion in 1990. That just happens to be a nice round number that represents no potential threat to the stability of the economy.

## TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | *-----FEDERAL----------* | | | *---STATE AND LOCAL----* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 315.0 | 70.9 | -175.7 | 120.3 | 19.1 | 53.0 |
| 1985:1* | 362.2 | 67.4 | -165.1 | 126.8 | 17.9 | 53.7 |
| 2 | 369.9 | 69.9 | -186.6 | 129.1 | 19.0 | 54.6 |
| 3 | 374.0 | 73.8 | -189.1 | 133.8 | 20.7 | 55.5 |
| 4 | 379.3 | 77.4 | -189.5 | 137.2 | 21.9 | 56.1 |
| YEAR | 371.4 | 72.1 | -182.6 | 131.7 | 19.9 | 55.0 |
| % change from '84 | 17.9 | 1.7 | 3.9 | 9.5 | 4.1 | 3.7 |
| 1986:1 | 386.2 | 77.9 | -185.2 | 138.1 | 22.6 | 57.3 |
| 2 | 391.7 | 78.3 | -181.1 | 141.2 | 23.4 | 58.4 |
| 3 | 401.8 | 81.5 | -177.6 | 144.6 | 23.6 | 60.1 |
| 4 | 415.5 | 83.8 | -173.4 | 149.3 | 24.0 | 63.5 |
| YEAR | 398.8 | 80.4 | -179.3 | 143.3 | 23.4 | 59.8 |
| % change from '85 | 7.4 | 11.4 | -1.8 | 8.8 | 17.7 | 8.8 |
| 1987:1 | 423.1 | 86.1 | -171.6 | 150.9 | 24.7 | 64.0 |
| 2 | 432.4 | 89.2 | -167.5 | 152.6 | 25.8 | 67.3 |
| 3 | 443.9 | 91.3 | -158.2 | 155.8 | 26.5 | 70.2 |
| 4 | 455.3 | 93.6 | -153.1 | 158.4 | 27.4 | 72.0 |
| YEAR | 438.7 | 90.0 | -162.6 | 154.4 | 26.1 | 68.4 |
| % change from '86 | 10.0 | 12.0 | -9.3 | 7.8 | 11.5 | 14.3 |

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*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

Low interest rates have done little to encourage savings, but the public is still saving in the middle of a big buying spree.

What looks like a drop in personal income in May is only adjusting back to reality after the April surge caused by IRS rebates, farm-subsidy payments and retroactive wage payments to postal workers. The .5% drop in May's Personal Income is meaningless when considering that consumers spent .7% more in May. This gives credence to the public's faith in the economy and that spending will continue. That adds momentum to growth and **KEDI** forecasts continuing increases in spending throughout the 1985-1987 period. Even with increased spending, personal savings (as a percent of disposable income) climbed 6.6% in May from 5.8% in April and 3.6% in March.

The drop in corporate profits before taxes, while more complex, is an encouraging sign that indiscriminate price increases may have abated in favor of more sensible inflation fighting in the board rooms. Let's hope the CEOs hold the line and continue to tighten within their organizations rather than passing inefficiency along to the consumer.

The modest increase of .2% in after-tax profits for the second quarter helps to confirm **KEDIs** forecast of $147.2 billion (annualized) over first quarter's $118.6 billion.

## TABLE 1.60

## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1984* | 3012.1 | 2576.9 | 2173.2 | 146.3 | 156.1 | 368.5 |
| 1985:1* | 3133.3 | 2644.3 | 2272.7 | 137.0 | 118.6 | 374.6 |
| 2 | 3244.5 | 2745.5 | 2318.1 | 142.4 | 147.2 | 376.8 |
| 3 | 3329.7 | 2821.9 | 2343.7 | 148.7 | 155.1 | 380.3 |
| 4 | 3389.3 | 2872.8 | 2365.2 | 155.9 | 152.6 | 385.2 |
| YEAR | 3274.2 | 2771.1 | 2324.9 | 146.0 | 143.4 | 379.2 |
| % change from '84 | 8.7 | 7.5 | 7.0 | -.2 | -8.2 | 2.9 |
| 1986:1 | 3437.5 | 2913.2 | 2399.8 | 157.2 | 155.4 | 387.3 |
| 2 | 3517.3 | 2984.4 | 2457.2 | 161.6 | 158.2 | 390.5 |
| 3 | 3586.2 | 3039.8 | 2498.6 | 166.7 | 163.1 | 400.1 |
| 4 | 3639.9 | 3075.1 | 2458.4 | 171.3 | 166.4 | 407.5 |
| YEAR | 3545.2 | 3003.1 | 2453.5 | 164.2 | 160.8 | 396.4 |
| % change from '85 | 8.3 | 8.4 | 5.5 | 12.5 | 12.1 | 4.5 |
| 1987:1 | 3716.4 | 3142.4 | 2616.2 | 175.4 | 168.3 | 410.3 |
| 2 | 3793.2 | 3208.2 | 2676.1 | 180.6 | 169.2 | 416.6 |
| 3 | 3883.8 | 3284.1 | 2753.6 | 187.7 | 170.1 | 423.0 |
| 4 | 3769.9 | 3156.2 | 2842.0 | 193.4 | 172.4 | 427.1 |
| YEAR | 3790.8 | 3197.7 | 2722.0 | 184.3 | 170.0 | 419.2 |
| % change from '86 | 6.9 | 6.5 | 10.9 | 12.2 | 5.7 | 5.8 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

Tally Ho! is the cry of the ride to the hounds, with the fox at a decided disadvantage. There are just too many money hounds chasing that single little critter. The hounds pick up the scent of inflation, but there's no fox in sight. It's the same old game: too many hounds chasing too few vixens.

Who ever thought there could ever be too much money for sale? Well, there is! Ml stands well above the Fed's target range for this year. Still, the Fed stands firm in defending it's recent cut in the prime. Oh well, if you can't figure that one out, try this on for size. Maybe it makes more sense this way. Ml is growing at a 9.5% annual rate compared to a 4-7% target range. Keep it up Mr. Volcker and Ml will end up about $20 billion above upper range limits. When that happens, look out, here comes **inflation** nipping at everyones heals. Labor continues to gain higher wages. This will get tacked onto price tags.

The forecast for credit aggregates sees a slowdown in consumer credit after its explosive growth in the last five quarters. While consumers have pyramided debt, **KEDI** calls for a slower pace in consumer credit for the second half of the year. Commercial and industrial loans show only moderate increments for the balance of this year with renewed accelerated growth in the second half of 1986.

Mortgage institutions have remained tight-fisted throughout this easy money period and have carefully screened borrowers. This means mortgage credit will grow only at a moderate pace. Expect 4.9% growth this year, and 4.8% next year.

## TABLE 1.70

## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm. & indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 545.0 | 2277.4 | 477.0 | 470.7 | 416.8 | 554.9 |
| 1985:1* | 568.0 | 2416.3 | 472.9 | 473.1 | 423.4 | 560.5 |
| 2 | 579.3 | 2450.7 | 478.5 | 477.9 | 428.8 | 568.9 |
| 3 | 586.7 | 2511.6 | 486.3 | 480.6 | 435.5 | 579.0 |
| 4 | 590.2 | 2560.8 | 493.1 | 484.9 | 439.8 | 582.2 |
| YEAR | 581.0 | 2484.8 | 493.1 | 484.9 | 439.8 | 582.2 |
| % change from '84 | 6.6 | 9.1 | 3.4 | 3.0 | 5.5 | 4.9 |
| 1986:1 | 596.8 | 2602.5 | 499.4 | 487.9 | 448.3 | 588.4 |
| 2 | 603.6 | 2655.7 | 504.7 | 492.6 | 456.2 | 591.5 |
| 3 | 612.4 | 2703.2 | 507.8 | 504.0 | 459.4 | 597.6 |
| 4 | 618.6 | 2785.7 | 517.9 | 508.1 | 466.4 | 610.3 |
| YEAR | 607.9 | 2686.8 | 517.9 | 508.1 | 466.4 | 610.3 |
| % change from '85 | 4.6 | 8.1 | 5.0 | 4.8 | 6.0 | 4.8 |
| 1987:1 | 625.9 | 2835.2 | 520.2 | 510.3 | 470.1 | 612.2 |
| 2 | 633.6 | 2901.4 | 525.7 | 515.6 | 479.6 | 617.6 |
| 3 | 639.7 | 2957.2 | 529.7 | 523.7 | 488.8 | 627.8 |
| 4 | 648.8 | 3004.3 | 539.6 | 529.8 | 497.4 | 637.8 |
| YEAR | 637.0 | 2924.5 | 539.6 | 529.8 | 497.4 | 637.8 |
| % change from '86 | 4.8 | 8.8 | 4.2 | 4.3 | 6.6 | 4.5 |

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

**Buy me some peanuts and cracker jack!**
**I don't care if I never get back.**

. . . With a relapse in reasoning, Coach Volcker signals his outfield deep. The **FED** relaxes as **INFLATIONs** M1 Money bunts and puts a runner on first.

Coach Volcker walks to the mound for a chat with Industries. The crowd senses that Industries needs relief, and soon. So the coach gives him relief and reduces the prime rate. Surely, that's the last time Coach Volcker will pull that trick if he wants to win this series against **INFLATION**. He knows he might have to turn around and tighten things up soon.

The relief for Industries doesn't stop **INFLATIONs** heavy hitters. Productivity, the worst player on the team. walks, and M1 Money hits a grand slammer to drive in the two runs for a three to nothing lead over the **FED.**

. . . but there is no joy in Mudville . . . the **FED** at bat with two out.

Peanuts! Popcorn! Cracker Jacks! Only five bucks a box! **INFLATION** fever has gripped the crowd.

"Streee-rike two!" bellows the Umpire.

"Good grief! Wake up **FED!**" Two outs, two strikes, no balls!

"Will the **FED** take another strike by lowering interest rates again?"

M1 and M2 Money are scoring big with pockets bulging with surplus funds. Productivity continues to walk around the plate scoring unearned runs. Lower interest rates are only temporary relief for Industries nagging ailments. . .

**. . . For it's one...two. .three strikes you're OUT!**
**At the old ball game.**

## TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1984* | 9.52 | 12.04 | 13.84 | 12.65 | 12.36 | 160.50 |
| 1985:1* | 8.34 | 10.48 | 13.29 | 12.06 | 11.41 | 177.45 |
| 2 | 7.88 | 10.04 | 13.15 | 12.17 | 10.42 | 189.26 |
| 3 | 7.34 | 9.72 | 12.92 | 11.84 | 10.61 | 190.62 |
| 4 | 7.68 | 10.18 | 12.85 | 11.32 | 10.04 | 185.43 |
| YEAR | 7.81 | 10.11 | 13.05 | 11.85 | 10.62 | 185.69 |
| % change from '84 | -18.0 | -16.1 | -5.7 | -6.3 | -14.1 | 15.7 |
| 1986:1 | 8.11 | 10.86 | 12.74 | 10.87 | 19.88 | 186.48 |
| 2 | 8.34 | 11.02 | 12.38 | 10.72 | 10.02 | 179.37 |
| 3 | 7.65 | 10.14 | 11.76 | 10.63 | 10.21 | 185.40 |
| 4 | 8.34 | 11.68 | 11.45 | 10.18 | 10.05 | 182.73 |
| YEAR | 8.11 | 10.93 | 12.08 | 10.60 | 12.54 | 183.50 |
| % change from '85 | 3.8 | 8.1 | -7.4 | -10.5 | 18.1 | -1.2 |
| 1987:1 | 7.86 | 9.78 | 11.27 | 10.76 | 9.62 | 181.38 |
| 2 | 7.06 | 9.40 | 11.04 | 10.95 | 9.23 | 189.86 |
| 3 | 7.01 | 9.25 | 11.53 | 10.42 | 9.16 | 192.49 |
| 4 | 6.87 | 9.06 | 11.87 | 10.03 | 10.29 | 194.58 |
| YEAR | 7.20 | 9.37 | 11.43 | 10.54 | 9.57 | 189.58 |
| % change from '86 | -11.2 | -14.2 | -5.4 | -.6 | -23.6 | 3.3 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

### 8.0 SIMULATION OF MARKETS

The following is in response to requests from **KEDI** clients for more information about the market simulation method used in forecasting future markets.

### THE MULTIPLE MARKETS SIMULATION METHOD (MMS)

You've heard the old saying, "You're talking about apples and oranges." That's just what we're going to do. Let's talk about comparing apples and oranges in a Multiple Markets Simulation.

**MMS** is a proprietary method developed and used by **KEDI** to forecast amounts and prices of goods and services such as coal, copper, airfares, phone rates, shoes, meat, mortgages, as well as apples and oranges--just to mention a few.

### Factors of MMS

**MMS** can simulate how the apple (or orange) market will behave in the future for a specific client. We'll call him Joe's Orchard. To simulate a future market, the following factors are considered:

- How many apples will Joe's Orchard produce?
- How many apples will competition produce?
- How will buyers react to amounts and prices offered?
- How will related markets react? If the price goes up, will people continue to buy apples or switch to oranges (or kumquats or kiwi)?
- What are the expected market trends?
    - Promotion efficiency
    - Vulnerability of competition
    - Patterns of marketing

**KEDI** doesn't dream up the forecast. There has to be a lot of data input from Joe's Orchard.

## THE KENT ECONOMIC FORECASTING SYSTEM

### Developing a Forecast

There are two stages in the development of a specific forecast. First, buyers' and sellers' intentions are predicted after considering all data. The results of the **MMS** in the first step are:

- Seller's expected amount offered and price
- Buyer's expected amount demanded and price

But this data doesn't provide a forecast--yet. What the buyers and sellers expect won't necessarily happen. So, the second stage of the forecast comes into play. Buyers and sellers are brought together into one forecast quantity and one forecast price by means of the **KEDI** market simulation process. The computer crunches numbers, the forecaster judges logic, and out comes a final forecast.

### MMS Reliability

Many years have gone into the development and testing of the Multiple Market Simulation.

The methods is based on the future--not just stale old statistics like most other methods. It considers all relavent factors in the business world and how they will influence sales. **MMS** compares related markets as well. When **MMS** looks at apples, it's considering oranges too. Then, based on evaluation, **MMS** develops a sales plan.

So, we can talk about apples and oranges and still know what we're talking about.

### Availability of MMS.

**KEDI** is preparing a software package for personal computers. In the meantime, **MMS** runs on a mainframe computer. Contact **KEDI** for further information.

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **State and Local Governments Purchases in** 1984 has been selected for comparison. The actual figure is the April 1985 estimate of the U. S. Department of Commerce for Personal Disposable Income in 1984. Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS

(State and Local Government Purchases, 1984, bil. $)

**Actual figure: 452.0**

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Georgia State University, p. 21 | 11/83 | 458.0 | 1.3 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 450.7 | -.3 |
| Research Seminar in Quantitative Economics, Univ.of Michigan, p.24 | 11/17/83 | 457.3 | 1.2 |
| UCLA Business Forecasting Project, p.26 | 12/83 | 451.0 | -.2 |
| Citicorp Information Service, p. 27 | 12/1/83 | 448.8 | -.7 |
| Metropolitan Life Insurance Co., p.28 | 12/1/83 | 439.5 | -2.8 |
| Fidelity Bank, p. 32 | 12/19/83 | 451.9 | .0 |
| Evans Economics, Inc., p. 34 | 12/22/83 | 448.9 | -.7 |
| Data Resources, Inc., p. 36 | 12/24/83 | 449.3 | -.6 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **449.6** | **-.5** |
| Lehman Bros, Kuhn Loeb, Inc., p. 40 | 1/5/84 | 448.9 | -.7 |
| The Equitable Life Assurance Society of the U.S., p. 42 | 1/9/94 | 444.2 | -1.3 |
| Standard & Poor's Corp, p. 44 | 1/12/84 | 451.0 | -.2 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 450.7 | -.3 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

**HISTORICAL DATA SOURCES**

| Table Number | Data Series | Source |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:**Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:**Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

AUGUST 1, 1985

Prepared by the staff of

**Kent Economic and Development Institute, Inc.**

P.O. Box 99

Tallmadge, Ohio 44278

(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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(216) 678-8215

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## CONTENTS

Page

**0.00 Introduction**

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

**1.00 Detailed Forecasts**

1.10 Real Growth 6
1.20 Prices and Nominal GNP
    1.21 Prices 8
    1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
    1.41 Housing 14
    1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24
**2.00 The Kent Economic Forecasting System (continued)** 26
**3.00 Comparisons of Accuracy of Predictions** 28
**4.00 Historical Data Sources** 29
**Supplement** 31

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29
Revised Index of Industrial Production 31

**SOURCES:**

U.S.Department of Commerce first estimates of 1985:2 National Income and Product data, July 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, July 1985.

The lastest available data on prices, employment, industrial, and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

### Highlights

**The Invincible Fed** displays amazing agility in its high wire act in **The Greatest Show On Earth.**

### Real Growth

Balridge from Commerce suffers from **foot-in-mouth mallady.**

### Prices

Revised IIP reflects true nature of today's real growth--strong and steady.

### Employment & Labor

**Roberta the Robot** has a few words of wisdom about the future job market.

### Housing

**Condo Glut** producing many disgruntled investors and speculators.

### Automobiles

Japanese imports lead the pack in sales performance while Mr. Honda heads the parade.

### Budgets

Clowns frolic in the sawdust of the three-ring circus as the donkeys and elephants parade triumphantly.

### Income

United States second only to Switzerland in personal income for industrialized countries.

### Money & Credit

M1 supply of money growing at alarmingly fast rate with the Fed stretching target ranges.

### Interest Rates, Yields & Securities Prices

Banks start charging each other more as pressure on interest rates continues upward.

## 0.02 OVERVIEW

## THE GREATEST SHOW ON EARTH

**Laaaaaaaa-dies and gent-le-men. . . and child-ren of allllll ages! May I have your attention, please!**

We direct your attention to the center ring, where, perched high above us in the big top on that precarious tiny pedestal is the one and only, the main attraction of The Greatest Show On Earth--that internationally famous high wire aerialist team--**The Invincible Fed.**

A deafening silence grips the big top as all eyes turn upward to watch the death defying feat of daring-do.

**Will** they be able to keep their balance inching across the high wire? While crossing they will juggling as well with:

* value of the international dollar which attracts foreign investment--which finances the federal deficit.

* Controlling the money supply to retard inflationary pressures which would push interest rates up too fast--which would aggravate the trade deficit.

In Congressional testimony **Fed Chairman Volcker** warns of **"strain, imbalance and danger"** in the American economy putting pressure on his high wire act. He urges Congress to take action against the mounting federal budget deficit.

Another pitfall on the high wire in the big top is the consequences of too rapid a fall for the dollar. He declares that to be **"the greatest risk we have on the inflation front,"** and he has made it clear that the Fed will take no action to reduce interest rates below their current **too low** level.

**KEDI** applauds. . . but, there is a disturbance below which momentarily distracts **The Invincible Fed** and breaks their concentration. Someone in the crowd is calling for drastic reductions in the international value of the dollar. Straining closely to see, they can't believe their eyes as they spot the loudmouth in the audience.

(Continued on page 6.)

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

| Indicator | Unit | 1985 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| Gross national | bil.72$ | 1682.2 | 1863.8 | 1936.4 | 1977.0 |
| product, p. 7 | % change | 3.0 | 3.9 | 3.6 | 2.1 |
| Index of industrial | 1967=100 | 124.9 | 143.1 | 149.8 | 156.3 |
| production, p. 7 | % change | 2.5 | 5.0 | 4.7 | 4.3 |
| Capacity | % | 80.5 | 82.9 | 81.9 | 81.0 |
| utilization, p. 7 | % change | -.5 | 1.1 | -1.2 | -1.1 |
| Unemployment | % | 7.30 | 6.72 | 6.79 | 6.80 |
| rate, p. | % change | -3.0 | -4.2 | 1.1 | .9 |
| Private housing | mil. units | 1.649 | 2.027 | 1.956 | 1.911 |
| starts, p. 7 | % change | -3.0 | 9.8 | -3.5 | -2.3 |
| Car | mil. units | 10.5 | 11.8 | 11.7 | 11.6 |
| sales, p. 7 | % change | 1.0 | 9.9 | -.6 | -1.0 |
| Implicit GNP | 1972=100 | 232.7 | 270.0 | 284.6 | 298.0 |
| price deflator, p.9 | % change | 4.5 | 5.3 | 5.4 | 4.7 |
| Consumer price | 1967=100 | 321.1 | 370.2 | 391.3 | 411.3 |
| index, p. 9 | % change | 3.2 | 5.6 | 5.7 | 5.1 |
| Producer price index | 1967=100 | 263.9 | 356.5 | 378.2 | 393.0 |
| (finished goods),p.9 | % change | 2.9 | 6.8 | 6.1 | 3.9 |
| Federal | bil. $ | -182.8 | -149.9 | -127.6 | -117.1 |
| deficit, p. 19 | % change | 4.1 | -7.8 | -14.9 | -8.2 |
| Personal | bil. $ | 3252.6 | 4086.1 | 4404.8 | 4717.6 |
| income, p. 21 | % change | 8.0 | 8.3 | 7.8 | 7.1 |
| Prime | % | 10.11 | 8.47 | 9.05 | 9.59 |
| rate, p. 25 | % change | -16.0 | -10.4 | 6.9 | 5.9 |
| Mortgage | % | 13.04 | 11.13 | 11.52 | 11.05 |
| rate, p. 25 | % change | -5.8 | -2.6 | 3.5 | -4.1 |
| Currency plus | bil. $ | 587.1 | 681.8 | 720.7 | 755.3 |
| demand deposits,p.23 | % change | 7.7 | 6.5 | 5.7 | 4.8 |
| Commercial and | bil. $ | 485.1 | 571.3 | 590.2 | 603.1 |
| industrial loans,p.23 | % change | 3.1 | 6.3 | 3.3 | 2.2 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged:

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the August 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more acceptable level in 1987.

### TABLE 1.11

### SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod. | Unemployment rate | Capacity util'n rate | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 121.8 | 7.52 | 80.8 | 1.749 | 10.4 |
| 1985:1* | 1663.5 | 123.8 | 7.32 | 80.5 | 1.793 | 10.9 |
| 2 | 1670.7 | 124.4 | 7.31 | 80.4 | 1.765 | 10.9 |
| 3 | 1691.2 | 125.1 | 7.24 | 80.5 | 1.725 | 10.2 |
| 4 | 1702.5 | 126.2 | 7.32 | 80.7 | 1.504 | 10.0 |
| YEAR | 1682.0 | 124.9 | 7.30 | 80.5 | 1.697 | 10.5 |
| % change from '84 | 2.6 | 2.5 | -2.96 | -.3 | -3.0 | 1.0 |
| 1986:1 | 1710.3 | 126.9 | 7.33 | 80.3 | 1.529 | 9.9 |
| 2 | 1721.4 | 128.2 | 7.39 | 80.6 | 1.654 | 10.3 |
| 3 | 1733.5 | 129.4 | 7.34 | 81.0 | 1.730 | 10.2 |
| 4 | 1747.2 | 131.6 | 7.23 | 81.3 | 1.655 | 10.3 |
| YEAR | 1728.1 | 129.0 | 7.32 | 80.8 | 1.651 | 10.2 |
| % change from '85 | 2.7 | 3.3 | .34 | .3 | -2.7 | -3.1 |
| 1987:1 | 1766.3 | 133.5 | 7.16 | 81.6 | 1.748 | 10.3 |
| 2 | 1784.2 | 134.8 | 7.12 | 81.8 | 1.882 | 10.6 |
| 3 | 1804.7 | 137.2 | 6.92 | 82.4 | 1.957 | 10.9 |
| 4 | 1819.6 | 139.6 | 6.84 | 82.3 | 1.798 | 11.0 |
| YEAR | 1793.7 | 136.3 | 7.01 | 82.0 | 1.846 | 10.7 |
| % change from '86 | 3.8 | 5.6 | -4.27 | 1.5 | 11.8 | 5.2 |

*Historical data.

Note: Index of industrial production and Capacity utilization rate reflect recent revisions made by the Federal Reserve System.

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.
See Supplementary Page 31 for the revised
Index of Industrial Production

Midway across the high wire **The Invincible Fed** hears the loud voice calling out hopefully for a 20-25% further reduction in the international value of the dollar to help bail out domestic industry's low productivity.

The aerialists teeter momentarily at the incredulous suggestion while the audience boos Balridge back to the Commerce Dog Pound and invites him to take along Martin Feldstein, a Harvard professor, who yells out in protest "there is nothing fundamentally uncompetitive about American industry."

The crowd grows hostile toward Feldstein and his erroneous assumption. "Why," they ask, "do you think GM is building the Saturn auto plant in Tennessee with Japanese technology and revolutionary work and pay rules gained from the UAW if American industry is not fundamentally uncompetitive?"

Data of the new Index of Industrial Production just revised by the Federal Reserve System confirms that the economy is strong, yes, even strong, than previous data indicated. The new data demonstrates that the goods-producing segment, especially manufacturing has been growing since January.

**The Invincible Fed** quiets the crowd by explaining that a lower dollar value would help reduce the trade deficit, but a higher dollar value is needed to keep a "capital inflow to finance the deficit."

"I don't think we're in any position to look at appreciable declines in the dollar as a good thing if we haven't got out domestic house in order," the team captain admonishes Balridge and Feldstein as they are escorted from The Greatest Show on Earth.

(Continued on page 8.)

## TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product: Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 1062.4 | 289.7 | -5.0 | 122.5 | 179.6 |
| 1985:1* | 1663.5 | 1089.1 | 292.1 | -28.4 | 129.8 | 180.9 |
| 2 | 1670.7 | 1103.1 | 287.7 | -33.8 | 130.6 | 183.1 |
| 3 | 1691.2 | 1114.3 | 290.4 | -31.3 | 131.7 | 186.1 |
| 4 | 1702.5 | 1112.8 | 296.7 | -28.4 | 132.5 | 188.9 |
| YEAR | 1682.0 | 1104.8 | 291.7 | -30.5 | 131.2 | 184.8 |
| % change from '84 | 2.6 | 4.0 | .7 | 509.5 | 7.1 | 2.9 |
| 1986:1 | 1710.3 | 1113.9 | 299.0 | -26.5 | 134.4 | 189.5 |
| 2 | 1721.4 | 1119.7 | 302.6 | -27.7 | 135.3 | 191.5 |
| 3 | 1733.5 | 1121.9 | 306.1 | -25.8 | 137.5 | 193.8 |
| 4 | 1747.2 | 1120.6 | 312.5 | -22.8 | 140.9 | 196.0 |
| YEAR | 1728.1 | 1119.0 | 305.1 | -25.7 | 137.0 | 192.7 |
| % change from '85 | 2.7 | 1.3 | 4.6 | -15.7 | 4.5 | 4.3 |
| 1987:1 | 1766.3 | 1133.1 | 317.8 | -24.5 | 142.8 | 197.1 |
| 2 | 1784.2 | 1143.3 | 321.4 | -22.7 | 144.4 | 197.8 |
| 3 | 1804.7 | 1150.7 | 326.5 | -20.7 | 147.0 | 201.2 |
| 4 | 1819.6 | 1153.0 | 331.3 | -18.6 | 149.1 | 204.8 |
| YEAR | 1793.7 | 1145.0 | 324.2 | -21.6 | 145.8 | 200.2 |
| % change from '86 | 3.8 | 2.3 | 6.3 | -15.9 | 6.4 | 3.9 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

The press corps collars Balridge as he leaves the Big Top wanting an explanation for his inflamatory remarks about the dramatic reduction of the dollar value he hopes for in the range of 20-25% over the next 12 to 18 months.

**KEDI**'s Inquiring Reporter posed the following question: In order to contain inflation and keep it at it's present low level, isn't it necessary to keep the international value of the dollar high in order to attract foreign investment and finance the debt?"

The Secretary would only comment along the lines that his hoped-for decline of 20-25% would be necessary to put American industry back on its feet and "completely comeptitive again."

**KEDI**'s Inquiring Reporter then suggests to the Secretary that a 20-25% decline in the international dollar would produce a 6-8% rise in the Index of Producer Prices, resulting in about 6% increase in the Consumer Price Index if the dollar fell to those levels in 1986. Analysis of the revised IIP confirms **KEDI** forecasts of strength in foods, printing and publishing, chemicals and products, nonelectrical machinery, motor vehicles and parts, aerospace, plastics, and furniture and fixtures. Weak segments include tobacco, textiles, apparel, petroleum products, primary metals and electrical machinery. This trend continues through 1986.

The Secretary had no comment and walked on down the midway entering one of the side shows to watch another dog-and-pony show. He is interviewing candidates for the Commerce Dog Pound as possible replacements for "ole flash estimates," **KEDIs** favorite canine at Commerce.

(Continued on page 10.)

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1972= 100 | 1972= 100 | 1972= 100 | 1972= 100 |
| Year & Qtr. | | | | | | |
| 1984* | 311.1 | 291.2 | 223.4 | 220.4 | 241.1 | 251.7 |
| 1985:1* | 317.4 | 292.5 | 229.1 | 224.7 | 246.5 | 261.0 |
| 2 | 319.1 | 294.0 | 230.7 | 227.4 | 249.0 | 264.7 |
| 3 | 322.0 | 287.9 | 234.1 | 231.0 | 251.0 | 265.6 |
| 4 | 325.9 | 301.0 | 237.0 | 235.3 | 253.8 | 266.9 |
| YEAR | 321.1 | 293.9 | 232.7 | 229.3 | 250.1 | 264.6 |
| % change from '84 | 3.2 | .9 | 4.2 | 4.0 | 3.7 | 5.1 |
| 1986:1 | 329.1 | 304.2 | 239.4 | 237.8 | 255.1 | 269.1 |
| 2 | 331.5 | 311.7 | 242.8 | 242.5 | 257.9 | 272.8 |
| 3 | 334.6 | 317.5 | 245.8 | 245.9 | 260.6 | 276.2 |
| 4 | 338.9 | 322.3 | 248.1 | 249.4 | 264.0 | 280.2 |
| YEAR | 333.5 | 313.9 | 244.0 | 243.9 | 259.4 | 274.6 |
| % change from '85 | 3.9 | 6.8 | 4.9 | 6.3 | 3.7 | 3.8 |
| 1987:1 | 344.7 | 326.8 | 250.2 | 251.0 | 265.8 | 280.9 |
| 2 | 348.6 | 330.1 | 253.9 | 256.0 | 269.0 | 283.4 |
| 3 | 352.9 | 336.5 | 256.1 | 258.5 | 272.7 | 285.7 |
| 4 | 356.4 | 341.7 | 261.8 | 248.7 | 275.6 | 388.0 |
| YEAR | 350.6 | 333.8 | 255.5 | 253.6 | 270.8 | 309.5 |
| % change from '86 | 5.1 | 6.3 | 4.7 | 4.0 | 4.4 | 12.7 |

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*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

While noshing on kielbasa and sauerkraut as we stroll along the midway at the carnival surrounding The Greatest Show on Earth we encounter the **BELIEVE IT OR NOT!** booth staffed by the Commerce Department.

"Would you believe that the second quarter GNP grew only 1.7%?" a hawker asks as he teases the crowd.

"NO!" the chorus yells.

"Last month **ole flash estimates** barked of a much higher 3.1% in real terms," one watcher admonished the hawker. Where's **ole flash estimates** now?"

The hawker stammers momentarily, then offers, "it's August, and **ole flash estimates** doesn't work during the dog days of August."

A loud boo surrounds the hawker while the public address system informs the on-lookers:

* The **optical** slowdown is a mathematical glitch caused by an increase in imports over exports which drags down the GNP growth data.

* Second quarter inventories increased only $12.6 billion compared to $40.7 billion in the first quarter. This $28.1 billion gap does not point to a slowdown, only an inventory adjustment caused by higher consumer demands which depleted inventories. Plus, inventories are being maintained at lower levels expecting the economy to proceed at a moderate rate.

* The Administration has lowered it 1985 forecast of GNP growth from 4% to 3%.

The public announcer then reminded the crowd that the 3% growth rate has been forecast by **KEDI** since 1984.

(Continued on page 12.)

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product---------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 3662.2 | 2341.8 | 637.9 | -64.2 | 295.3 | 452.1 |
| 1985:1* | 3811.1 | 2446.7 | 646.8 | -74.5 | 320.0 | 455.3 |
| 2 | 3854.3 | 2508.6 | 638.7 | -91.1 | 325.2 | 484.7 |
| 3 | 3959.1 | 2574.5 | 644.5 | -84.7 | 330.6 | 494.3 |
| 4 | 4034.9 | 2618.0 | 656.8 | -80.3 | 336.3 | 504.2 |
| YEAR | 3914.4 | 2533.6 | 646.7 | -82.7 | 328.0 | 484.6 |
| % change from '84 | 6.9 | 8.2 | 1.4 | 28.7 | 11.1 | 7.2 |
| 1986:1 | 4094.5 | 2649.0 | 667.4 | -74.7 | 342.9 | 509.9 |
| 2 | 4179.6 | 2715.0 | 670.2 | -77.0 | 348.9 | 522.4 |
| 3 | 4260.9 | 2758.4 | 679.1 | -70.2 | 358.3 | 535.3 |
| 4 | 4334.8 | 2794.2 | 684.7 | -65.3 | 372.0 | 549.2 |
| YEAR | 4217.0 | 2728.9 | 675.4 | -71.8 | 355.5 | 529.2 |
| % change from '85 | 7.7 | 7.7 | 4.4 | -13.1 | 8.4 | 9.2 |
| 1987:1 | 4419.3 | 2844.3 | 706.5 | -64.7 | 379.6 | 553.7 |
| 2 | 4530.1 | 2926.7 | 714.3 | -59.9 | 388.4 | 560.6 |
| 3 | 4621.8 | 2974.4 | 728.5 | -56.8 | 400.9 | 574.8 |
| 4 | 4763.7 | 2868.0 | 748.4 | -58.2 | 410.9 | 794.6 |
| YEAR | 4582.9 | 2903.8 | 724.4 | -59.9 | 394.9 | 620.9 |
| % change from '86 | 8.7 | 6.4 | 7.3 | -16.6 | 11.1 | 17.3 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

In the middle of the midway **Roberta the Robot** is answering questions and handing out literature to the large crowd amazed and amused at the robot's intelligence and dexterity.

A chauvenist in the crowd angrily asks "why are you a famale robot?"

"Kind sir," replies **Roberta**, "women are now a majority--we dominate the work force by 52.9 million jobs compared to only 51.9 men in 1985."

"But you're just a pile of metal and circuits," yells another unemployed factory worker, you can't think, or make decisions."

"Neither have you," **Roberta** replies. "You've spent the last 20 years worrying about higher wages and shorter work weeks. They tell me that several years ago you were complaining about working a five-day week and wanted to bargain that down to a four-day week."

"Well . . . ," stammers the inquirer, "that would make more jobs for more people if we work a shorter week."

"Maybe so," **Roberta** confidently chirped, "but that means you're paid more to work less. The world economy doesn't think that way any more. You see, kind sir, I don't complain about working conditions, fringe benefits, breaks, strikes, . . . oh well, you've heard all that before. So, my creators are still hard at work making me smarter every day. And they have jobs. More and more jobs are available for **thinkers** who have learned new skills, who retrain and update their skills to stay at the leading edge of technology."

The crowd backs off to the superiority of **Roberta's** reasoning and asks no further questions.

(Continued on page 14.)

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Non agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1984* | 237.4 | 113.5 | 105.0 | 3.4 | 101.6 | 7.52 |
| 1985:1* | 239.8 | 115.2 | 106.8 | 3.4 | 103.4 | 7.30 |
| 2 | 240.9 | 115.4 | 107.0 | 3.4 | 103.6 | 7.31 |
| 3 | 242.3 | 116.1 | 107.7 | 3.4 | 104.3 | 7.24 |
| 4 | 243.7 | 116.5 | 108.0 | 3.4 | 104.6 | 7.32 |
| YEAR | 241.7 | 115.8 | 107.3 | 3.4 | 103.9 | 7.30 |
| % change from '84 | 1.8 | 2.0 | 2.1 | 0.0 | 2.1 | -2.96 |
| 1986:1 | 244.5 | 117.1 | 108.5 | 3.4 | 105.1 | 7.33 |
| 2 | 245.5 | 118.2 | 109.5 | 3.4 | 106.1 | 7.39 |
| 3 | 246.4 | 118.9 | 110.2 | 3.4 | 106.8 | 7.34 |
| 4 | 247.7 | 120.3 | 111.6 | 3.4 | 108.2 | 7.23 |
| YEAR | 246.0 | 118.6 | 109.9 | 3.4 | 106.5 | 7.32 |
| % change from '85 | 1.8 | 2.4 | 2.4 | 0.0 | 2.1 | .34 |
| 1987:1 | 248.6 | 121.2 | 112.5 | 3.4 | 109.1 | 7.16 |
| 2 | 249.3 | 112.0 | 104.0 | 3.4 | 100.6 | 7.12 |
| 3 | 250.4 | 122.8 | 114.3 | 3.4 | 110.9 | 6.92 |
| 4 | 252.3 | 123.0 | 114.6 | 3.4 | 111.2 | 6.84 |
| YEAR | 250.2 | 119.8 | 111.4 | 3.4 | 108.0 | 7.01 |
| % change from '86 | 1.7 | .9 | 1.0 | 0.0 | 1.0 | -4.27 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

At the **HAMMER & NAIL** pavillion of the National Association of Realtors, glum faces peer hopelessly into the audience trying to spark interest in home buyers.

"You and your condo glut!" one South Floridian yelled at the tenants of the pavillion. I paid almost $200,000 for my luxury condo in North Miami two years ago. Today I'd be lucky to get $140,000 for it, if I could find a buyer."

"Yeah!" pipes up a Scottsdale, Arizona, resident. "I paid $195,000 for my condo three years ago, and they're selling for $150,000 today. You bums have floaded the market."

To the bewildering strains of the "Condo Glut" being played in the background by unemployed carpenters, analysts register surprise that June saw a drop in new housing starts--they haven't visited **KEDIs** "Truth in Information" Booth where the downturn has been forecast for two years. Lower mortgage rates have not helped to turn over the large inventories being built in the face of this inevitable demise of Camelot. Too much new housing stock has been built on speculation--a gamble that is not paying off! Not to mention the financial disaster being faced by those who bought at exhorbitant price tags two years ago who must now suffer 25% loss (or real depreciation) because of an over-supply and buyer disillusionment in the life style of condo-mania.

(Continued on page 16.)

## TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1984* | 1.084 | .665 | .298 | 1.679 | 97.0 | 87.0 |
| 1985:1* | 1.112 | .681 | .291 | 1.709 | 99.6 | 87.9 |
| 2* | 1.076 | .689 | .286 | 1.724 | 101.3 | 90.4 |
| 3 | 1.053 | .672 | .277 | 1.561 | 103.2 | 92.6 |
| 4 | .936 | .568 | .265 | 1.475 | 104.9 | 95.6 |
| YEAR | 1.044 | .652 | .280 | 1.617 | 102.2 | 91.6 |
| % change from '84 | -3.7 | -1.9 | -6.1 | -3.7 | 5.4 | 5.3 |
| 1986:1 | .898 | .631 | .241 | 1.478 | 106.1 | 95.8 |
| 2 | 1.012 | .642 | .247 | 1.526 | 107.1 | 96.1 |
| 3 | 1.105 | .625 | .272 | 1.589 | 107.9 | 97.2 |
| 4 | 1.074 | .581 | .279 | 1.618 | 109.6 | 98.9 |
| YEAR | 1.031 | .620 | .260 | 1.553 | 107.7 | 97.0 |
| % change from '85 | -1.3 | -5.0 | -7.1 | -4.0 | 5.3 | 5.9 |
| 1987:1 | 1.106 | .642 | .265 | 1.602 | 110.5 | 100.4 |
| 2 | 1.217 | .665 | .297 | 1.716 | 113.8 | 102.1 |
| 3 | 1.284 | .673 | .314 | 1.894 | 116.4 | 103.2 |
| 4 | 1.160 | .638 | .302 | 1.846 | 118.2 | 105.8 |
| YEAR | 1.192 | .655 | .294 | 1.764 | 114.7 | 102.9 |
| % change from '86 | 15.6 | 5.6 | 13.4 | 13.6 | 6.5 | 6.1 |

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*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

At the far end of the midway a massive victory parade marches through the throng of auto workers attending the circus. The Grand Marshall of the parade, Mr. Honda, smiles and waves smugly from the back seat of his Honda Accord to the sea of blue collars staring back.

"You like Honda Accord! Thank you very much. Most popular foreign car in America. I ship you more. OK?"

Mr. Honda turns to **number-one-honcho** sitting next to him and asks for sales statistics. Bowing obiedently, **number-one-honcho** spouts off sales statistics:

* American domestic sales off 3.2% in June
* Japanese-made sales 21% of market, up from 19.3% in May
* Mighty GM sales off 15% in last ten days of June
* Ford sales down 8.1% last ten days of June
* Chrys-rer (hard word to say) sales off 7.7% same period
* Same trend continues in mid-July

"How many Honda sold this July to happy Honda buyers in America?" Honda-san inquires of **number-one-honcho?**

The response is quick and articulate: "During July 11-20, Americans buy 3,603 Honda, compare to 2,733, same time last year."

"Excerrent!" quips Honda-san, "make plans ship more units for happy American Honda buyers." He smiles and waves to the sea of droll faces staring back.

"Tell driver to hurry. We go to Tennessee--where's that--to teach Yankee how to build cars right."

"Hai! Hai!," **number-one-honcho** barks back obediently.

(Continued on page 18.)

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 10.4 | 8.0 | 2.4 | 1.4 | 8.0 | 3.3 |
| 1985:1* | 10.9 | 8.4 | 2.5 | 1.6 | 8.3 | 3.7 |
| 2* | 10.9 | 8.2 | 2.7 | 1.8 | 8.3 | 3.5 |
| 3 | 10.2 | 7.6 | 2.6 | 1.9 | 7.8 | 3.4 |
| 4 | 10.0 | 7.4 | 2.6 | 1.7 | 7.3 | 3.4 |
| YEAR | 10.5 | 7.9 | 2.6 | 1.7 | 7.9 | 3.5 |
| % change from '84 | 1.0 | -7.4 | 8.3 | 21.4 | -.9 | 6.1 |
| 1986:1 | 9.9 | 7.2 | 2.7 | 1.6 | 7.3 | 3.4 |
| 2 | 10.3 | 7.5 | 2.8 | 1.7 | 7.5 | 3.6 |
| 3 | 10.2 | 7.3 | 2.9 | 1.7 | 7.6 | 3.4 |
| 4 | 10.3 | 7.5 | 2.8 | 1.6 | 7.4 | 3.3 |
| YEAR | 10.2 | 7.4 | 2.8 | 1.6 | 7.5 | 3.4 |
| % change from '85 | -3.1 | -10.8 | 7.7 | -5.9 | -6.0 | -2.1 |
| 1987:1 | 10.3 | 7.5 | 2.8 | 1.6 | 7.6 | 3.4 |
| 2 | 10.6 | 7.7 | 2.9 | 1.7 | 7.6 | 3.7 |
| 3 | 10.9 | 8.0 | 2.9 | 1.6 | 8.1 | 3.8 |
| 4 | 11.0 | 8.3 | 2.7 | 1.5 | 8.2 | 3.7 |
| YEAR | 10.7 | 7.9 | 2.8 | 1.5 | 7.9 | 1.5 |
| % change from '86 | 5.2 | 4.3 | .9 | -6.3 | 5.7 | -56.2 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

Clowns frolic in the sawdust of the three-ring circus under the magnificent dome of the big top on capital hill while the next act enters the arena--a parade of donkeys and elephants led by Tip O'Neill and Bob Dole, each pompously attired in plumbs dripping with red ink and party politics. So anxious to get the messy budget clean-up chores over with, they compromised, for the sake of compromising, so they wouldn't loose any more time getting to more important matters--their vacations.

And so the **PARADE OF THE GREAT COMPROMISERS** concluded with few surprises for anyone. Cuts were needed and happened. Program curtailments called for in many areas happened in too few. The new budget takes this outline:

* No significant tax changes.
* Military spending to rise with inflation next year.
* Full COLAs for Social Security and other government benefit programs.
* Reduced spending for a variety of domestic programs.
* Amtrak and other mass transit programs cut by 15%.
* General revenue sharing for local governments to end in 1987.

The bottom line of this budget reduces the deficit by $50 billion. President Reagan had hoped for a $100 billion deficit by 1988, but it will be slightly higher at $112 billion. However, **KEDI** reaffirms that a budget deficit in the $100 billion range is a realistic deficit that brings about an economic balance with state and local surpluses of approximately the same magnitude.

**KEDI** applauds President Reagan's rejection of the Senate's last deficit plan. **KEDI** calculations forecast that the $5 per barrel fee on oil, if put into effect, would raise inflation by 1% above the expected rate in 1986, and close to 2% more in 1987 starting a new inflation spiral.

(Continued on page 20.)

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | FEDERAL Income taxes | FEDERAL Corp. profits tax accru. | FEDERAL Surplus /deficit | STATE AND LOCAL Income taxes | STATE AND LOCAL Corp. profits tax accru. | STATE AND LOCAL Surplus /deficit |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 315.0 | 70.9 | -175.7 | 120.3 | 19.1 | 53.0 |
| 1985:1* | 362.2 | 67.4 | -165.1 | 126.9 | 17.9 | 53.7 |
| 2* | 317.2 | 68.6 | -187.2 | 129.8 | 19.0 | 55.1 |
| 3 | 368.7 | 71.9 | -190.4 | 133.9 | 20.6 | 56.0 |
| 4 | 375.7 | 76.5 | -188.6 | 137.4 | 21.9 | 56.7 |
| YEAR | 355.9 | 71.1 | -182.8 | 132.0 | 19.9 | 55.4 |
| % change from '84 | 13.0 | .3 | 4.1 | 9.7 | 3.9 | 4.5 |
| 1986:1 | 284.3 | 78.2 | -186.7 | 138.3 | 22.5 | 57.5 |
| 2 | 390.6 | 79.5 | -182.4 | 141.4 | 23.5 | 58.3 |
| 3 | 401.0 | 82.7 | -176.5 | 144.8 | 24.0 | 60.0 |
| 4 | 414.7 | 84.9 | -174.2 | 150.2 | 24.3 | 62.8 |
| YEAR | 372.6 | 81.3 | -179.9 | 143.7 | 23.6 | 59.6 |
| % change from '85 | 4.7 | 14.4 | -1.6 | 8.9 | 18.8 | 7.7 |
| 1987:1 | 423.3 | 87.0 | -170.3 | 151.6 | 24.8 | 63.2 |
| 2 | 432.9 | 89.8 | -167.8 | 153.7 | 25.9 | 66.5 |
| 3 | 444.7 | 91.9 | -157.0 | 156.2 | 26.6 | 68.4 |
| 4 | 456.2 | 93.8 | -154.2 | 159.1 | 27.7 | 71.2 |
| YEAR | 439.3 | 90.6 | -162.3 | 155.1 | 26.2 | 67.3 |
| % change from '86 | 17.9 | 11.4 | -9.8 | 8.0 | 11.3 | 12.9 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

At the **HAVE YOUR CAKE AND EAT IT TOO** tent, a large menu hangs over the lavish buffet:

**TOP TEN IN PERSONAL INCOME**

| Country | Income |
|---|---|
| Switzerland | $16,290 |
| United States | $14,100 |
| Norway | $14,020 |
| Sweden | $12,470 |
| Canada | $12,310 |
| Denmark | $11,570 |
| Australia | $11,490 |
| West Germany | $11,430 |
| Finland | $10,740 |
| France | $10,500 |

Source: World Bank rating of Industrial Market Economics

The menu doesn't include the United Arab Emirates average income of $22,870, and Kuwait with $17,880 per capita income. But their one-horse-oil-based-economies spend all their "unearned" income importing the basic necessities of luxury--unless you want to eat sand and drink oil.

The U.S. rating edged up from 1982 when Norway, Sweden and Saudi Arabia all had higher average per-capita income.

To the tune of Burger King's gingle, "Aren't you hungry?," a much smaller sign can be seen:

OTHER AVERAGE INCOMES

| | |
|---|---|
| Bangladesh | $130 |
| Ethiopia | $120 |

Imagine that, if you can!

(Continued on page 22.)

## TABLE 1.60

## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1984* | 3012.1 | 2576.9 | 2173.2 | 146.3 | 156.1 | 368.5 |
| 1985:1* | 3133.3 | 2644.3 | 2272.7 | 137.0 | 118.6 | 374.6 |
| 2 | 3179.3 | 2732.3 | 2306.5 | 142.1 | 144.7 | 376.3 |
| 3 | 3321.5 | 2818.9 | 2339.7 | 148.0 | 150.6 | 380.5 |
| 4 | 3376.5 | 2863.4 | 2364.8 | 155.2 | 150.3 | 385.7 |
| YEAR | 3252.6 | 2764.7 | 2320.9 | 145.6 | 141.1 | 379.3 |
| % change from '84 | 8.0 | 7.3 | 6.8 | -.5 | -9.6 | 2.9 |
| 1986:1 | 3323.3 | 2900.7 | 2402.6 | 157.3 | 152.8 | 387.4 |
| 2 | 3504.3 | 2972.3 | 2466.5 | 161.7 | 157.6 | 390.6 |
| 3 | 3567.3 | 3021.5 | 2504.3 | 177.2 | 161.9 | 400.3 |
| 4 | 3627.3 | 3062.4 | 2567.8 | 172.4 | 165.7 | 407.9 |
| YEAR | 3505.6 | 2989.2 | 2485.3 | 167.2 | 159.5 | 396.6 |
| % change from '85 | 7.8 | 8.1 | 7.1 | 14.8 | 13.1 | 4.6 |
| 1987:1 | 3690.4 | 3115.5 | 2629.3 | 176.1 | 167.4 | 410.5 |
| 2 | 3786.2 | 3199.6 | 2676.4 | 180.8 | 168.3 | 416.7 |
| 3 | 3851.4 | 3250.5 | 2758.3 | 188.5 | 170.4 | 424.3 |
| 4 | 3763.6 | 3148.3 | 2842.2 | 194.2 | 173.5 | 427.9 |
| YEAR | 3772.9 | 3178.5 | 2726.6 | 184.9 | 169.9 | 419.9 |
| % change from '86 | 7.6 | 6.3 | 9.7 | 10.6 | 6.5 | 5.9 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

**The Invincible Fed** meets a stumbling block in their walk across the high wire--**money supply.** Readily spendable cash, M1, has been growing at an annual rate of 10.5% during the first half--nearly doubling the Fed target of 4.5-7.5%. This is a tough hurdle for **The Invincible Fed** to ignor. However, they conclude that the economy is showing no signs of serious inflationary pressure and decide to raise the target range for M1. While most have no serious concerns about inflationary pressures **KEDI** warns that the Fed will have to adopt restraints toward the end of this year because the economy is solid and growing at a healthy moderate rate.

The high wire team lectures the crowd below that argiculture and basic manufacturing can't survive with more punishment from the high-valued dollar and that the economy is growing on borrowed money. Thus, keep interest rates low. They further admonish that the lack of Congressional concern in lowering the federal deficit will come back to haunt us if the dollar drops drastically on international markets. But Congress has adjourned for the summer, content with having done that for which they were duly elected--represent the welfare of their constituents.

As the aerialists near the end of their incredible high wire act, **KEDI** warns that they will have to adopt restraints on M1 money later this year to check inflationary pressures mounting. This is not to say that the economy is ill--on the contrary, **KEDI** sees a healthy economy growing at a moderate solid pace.

(Continued on page 24.)

## TABLE 1.70

## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1 | Time deposit adjust. M2 | Cons. instal. credit | Comm.& indus. loans at banks | Large denom. time dep. | Mortg. at S & L Assns. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 545.0 | 2277.4 | 460.5 | 470.7 | 416.8 | 555.3 |
| 1985:1* | 588.9 | 2416.4 | 472.9 | 473.1 | 423.4 | 561.4 |
| 2* | 582.6 | 2448.3 | 489.5 | 477.4 | 428.7 | 569.7 |
| 3 | 586.7 | 2510.2 | 496.4 | 481.2 | 435.9 | 581.2 |
| 4 | 590.2 | 2560.8 | 499.1 | 485.1 | 440.6 | 584.3 |
| YEAR | 587.1 | 2483.9 | 499.1 | 485.1 | 440.6 | 584.3 |
| % change from '84 | 7.7 | 9.1 | 8.4 | 3.1 | 5.7 | 5.2 |
| 1986:1 | 599.1 | 2602.8 | 507.4 | 488.2 | 449.2 | 590.6 |
| 2 | 607.8 | 2656.4 | 514.8 | 492.7 | 457.8 | 593.8 |
| 3 | 615.2 | 2705.3 | 519.6 | 508.6 | 461.2 | 598.9 |
| 4 | 620.8 | 2787.6 | 526.3 | 512.4 | 468.8 | 611.2 |
| YEAR | 610.7 | 2688.0 | 526.3 | 512.4 | 468.8 | 611.2 |
| % change from '85 | 4.0 | 8.2 | 5.4 | 5.6 | 6.4 | 4.6 |
| 1987:1 | 629.1 | 2837.5 | 529.5 | 517.2 | 472.8 | 613.8 |
| 2 | 636.7 | 2905.2 | 533.8 | 519.7 | 480.5 | 619.2 |
| 3 | 643.2 | 2960.7 | 539.6 | 526.1 | 486.7 | 629.4 |
| 4 | 651.6 | 3014.5 | 548.7 | 537.4 | 496.1 | 639.7 |
| YEAR | 640.2 | 2929.5 | 548.7 | 537.4 | 496.1 | 639.7 |
| % change from '86 | 4.8 | 9.0 | 4.3 | 4.9 | 5.8 | 4.7 |

---

*Historical data.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

A group of investors huddle in one corner of the big top to gain insight into the confusion surrouding their financial community of late. The traders are nervous about the surging supply of M1 money and wonder when the Fed will take measures to restrain the glut of money. Already loans among banks are above 8%, edging up from the recent range of 7 1/2-7 3/4%. Some in the group feel that the rise in interest rates is due to the recent revisions in the Index of Industrial Production showing more real growth in the economy that previously reported. **KEDI** agrees with this rationale and believes that the new IIP will help investors regain their confidence in the gradual long haul health of the domestic economy.

While the investors remain optimistic, many economists feel that the Fed will not adjust monetary policies before the fourth quarter because of two assumptions made:

- Economic activity will rebound in the third quarter
- M1 growth will slow down

Their eyes return to **The Invincible Fed** as they slowly descend the ladder leading from their perch high in the big top. A flawed performance in some respects but overall an admirable display of balance on a tight rope.

A short rest after this matinee performance and they will return to repeat the never-ending act.

And so, ladies and gentlemen, as the lights start to dim in the big top, the janitors come in to scoop up after the donkeys and elephants and we come to the end of another performance of **The Greatest Show on Earth.**

## TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1984* | 9.52 | 12.04 | 13.84 | 12.65 | 12.36 | 160.50 |
| 1985:1* | 8.18 | 10.54 | 13.28 | 12.06 | 11.41 | 177.30 |
| 2 | 7.78 | 10.02 | 13.11 | 12.18 | 10.40 | 189.17 |
| 3 | 7.46 | 9.78 | 12.90 | 11.91 | 10.62 | 191.42 |
| 4 | 7.79 | 10.11 | 12.86 | 11.40 | 10.13 | 187.28 |
| YEAR | 7.80 | 10.11 | 13.04 | 11.89 | 10.64 | 186.29 |
| % change from '84 | -18.0 | -16.0 | -5.8 | -6.0 | -13.9 | 16.1 |
| 1986:1 | 8.13 | 10.57 | 12.77 | 10.85 | 10.86 | 188.36 |
| 2 | 8.32 | 10.92 | 12.41 | 10.70 | 1.01 | 182.50 |
| 3 | 8.16 | 10.26 | 11.77 | 10.64 | 10.24 | 189.64 |
| 4 | 8.14 | 10.52 | 11.48 | 10.22 | 10.01 | 185.76 |
| YEAR | 8.19 | 10.57 | 12.11 | 10.60 | 8.03 | 186.56 |
| % change from '85 | 4.9 | 4.5 | -7.1 | -10.8 | -24.5 | .1 |
| 1987:1 | 7.91 | 9.81 | 11.29 | 10.65 | 9.88 | 183.50 |
| 2 | 7.19 | 9.52 | 11.08 | 10.85 | 9.54 | 191.25 |
| 3 | 7.12 | 9.31 | 11.50 | 10.36 | 9.22 | 194.37 |
| 4 | 6.88 | 9.16 | 11.87 | 10.06 | 10.17 | 198.62 |
| YEAR | 7.28 | 9.45 | 11.43 | 10.48 | 9.70 | 191.94 |
| % change from '86 | -11.1 | -10.6 | -5.6 | -1.2 | 20.8 | 2.9 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

### 8.0 THEORY OF MULTIPLE MARKETS SIMULATION (MMS)

### The Walras-Marshall Snythesis

We don't expect you to recognize the Walras-Marshall Snythesis. It's hardly a household word, so we'll try to make it more understandable.

### The Walrasians

For many decades, prevailing theory has it that price determines quantities--that is, the amounts purchased and sold depend on price. If the price is too high, then less is demanded and sold. We call these theoreticians **Walrasians** [Walras was a noted French economist at the turn of the century]. His loyal flock believes that price is the determinant of any market.

### The Marshallians

The flock of sheep across the English Channel follow the theory of Alfred Marshall [great English economist early in this century]. They believe just the opposite. [What else did you expect? The French and English never do agree.] The Marshallians believe that quantity determines price--if the supply exceeds demand, price has to go down.

### Resolving the Differences

There are practical reasons for resolving the falacies of both of these theories. Look what's happening with OPEC oil prices:

* A Walrasian simulation falls apart under conditions when quantities determine price.

* A Marshallian simulation also has falters when price determines quantities.

So, there has to be a better mousetrap to simulate the conditions. Since Walras and Marshall can never see eye-to-eye, we synthesize.

(Continued on page 27.)

## THE KENT ECONOMIC FORECASTING SYSTEM (Continued)

### MULTIPLE MARKETS SIMULATION (MMS)

[a better mousetrap]

At KEDI we've taken the best of both worlds and developed a more valid and effective forecasting tool since we got tired of that old Walras-Marshall harrange of the last fifty years. We think in terms of the real world, so let's deal with forecasting the same way--today's world, not turn-of-the-century philosophy that's been left at the starting gate with the speed of modern technology.

### MMS Conditions

* At any market, buyers know the amounts they would like to purchase and the prices they are willing to pay.

* In the same forum, sellers know the amounts they would like to seel and the prices they want to charge.

But a funny thing happens on the way to the forum--both must adjust their quantities and prices once at the forum until they strike a deal.

* AT ANY MARKET, BOTH PRICE AND QUANTITY INTERACT.

So there goes the Messrs. Walras and Marshall scratching their heads trying to figure out what's wrong with their time-honored theses. They are both right. Both theories hold simultaneously, and both fall apart simultaneously. MMS synthesizes both gentlemen, allowing both quantities and prices to vary.

Simple, isn't it?

. . . there will be a five minute recess before your quiz?

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Personal Consumption Expenditures on Services in 1984** has been selected for comparison. The actual figure is the May 1985 estimate of the U. S. Department of Commerce, **Survey of Current Business,** May 1985, Table 1.1) Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

**COMPARISONS OF ACCURACY OF PREDICTIONS**

(Personal Consumption Expenditures, 1984, bil. $)

**Actual figure: 452.0**

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Georgia State University, p. 21 | 11/83 | 1164.5 | -.1 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 1166.2 | .0 |
| Research Seminar in Quantitative Economics, Univ.of Michigan, p.24 | 11/17/83 | 1158.0 | -.7 |
| UCLA Business Forecasting Project, p.26 | 12/83 | 1171.9 | +.5 |
| Citicorp Information Service, p. 27 | 12/1/83 | 1167.5 | +.1 |
| Metropolitan Life Insurance Co., p.28 | 12/1/83 | 1180.8 | +1.3 |
| Fidelity Bank, p. 32 | 12/19/83 | 1159.5 | -.6 |
| Evans Economics, Inc., p. 34 | 12/22/83 | 1165.5 | .0 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **1161.7** | **-.3** |
| Standard & Poor's Corp, p. 44 | 1/12/84 | 1169.3 | +.3 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 1169.8 | +.3 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

**HISTORICAL DATA SOURCES**

| **Table Number** | **Data Series** | **Source** |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:**Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:**Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

## SUPPLEMENT

The following table is from the Board of Governors of the Federal Reserve System, July 18, 1985. In **KEDIs** estimation, the revised Index of Industrial Production more realistically reflects the true strength of the economy.

### Industrial Production: Summary

Seasonally adjusted
Index, 1977=100

| | Monthly Percent Change | | | | | Current month from a year ago |
|---|---|---|---|---|---|---|
| Item | Feb | Mar | Apr | May | Jun | |
| Total | .1 | .3 | .2 | .1 | .1 | 1.8 |
| **Market Groupings** | | | | | | |
| Products, total | .1 | .4 | .5 | .5 | .4 | 3.6 |
| Final products | .0 | .3 | .5 | .5 | .3 | 3.4 |
| Consumer goods | .2 | .6 | .1 | .6 | .2 | 2.0 |
| Durable goods | .1 | .5 | -0.5 | -0.5 | .1 | .7 |
| Nondurable goods | .3 | .6 | .3 | .9 | .2 | 2.5 |
| Business equipment | -0.3 | .1 | 1.3 | .0 | .3 | 5.2 |
| Defense and space | 1.2 | 1.1 | .6 | 1.5 | 1.0 | 10.9 |
| Intermediate products | .7 | .7 | .4 | .7 | .5 | 4.2 |
| Construction supplies | -0.5 | 1.0 | .2 | 1.0 | .4 | 4.0 |
| Materials | .0 | .1 | -0.3 | -0.6 | -0.2 | -0.8 |
| Industry Groupings | | | | | | |
| Manufacturing | -0.1 | .4 | .3 | .0 | .2 | 2.2 |
| Durable | -0.5 | .6 | .3 | .0 | .2 | 2.2 |
| Nondurables | .5 | .1 | .3 | .5 | .3 | 2.7 |
| Mining | -0.9 | .9 | .2 | .0 | -0.2 | -2.7 |
| Utilities | 2.5 | -1.7 | -0.2 | -0.5 | -0.2 | 1.2 |

9/13/85

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KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

## SEPTEMBER 1, 1985

Prepared by the staff of

**Kent Economic and Development Institute, Inc.**

P.O. Box 99

Tallmadge, Ohio 44278

(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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Personal computer software design
and preparation of this report by

**WORD WORKS**
1700 East Main Street
Kent, Ohio 44240
(216) 678-8215

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## CONTENTS

Page

0.00 **Introduction**

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

1.00 **Detailed Forecasts**

1.10 Real Growth 6
1.20 Prices and Nominal GNP
  1.21 Prices 8
  1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
  1.41 Housing 14
  1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24

2.00 **The Kent Economic Forecasting System (continued)** 26

3.00 **Comparisons of Accuracy of Predictions** 28

4.00 **Historical Data Sources** 29

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29

**SOURCES:**

U.S.Department of Commerce second estimates of 1985:2 National Income and Product data, August 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, August 1985.

The lastest available data on prices, employment, industrial, and financial developments.

## 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

### Highlights

Instead of protectionist legislation, the administration should negotiate to balance trade.

### Real Growth

All indicator gain showing slow, sure growth in a healthy economy.

### Prices

CPI increasing in line with GNP and inflation.

### Employment & Labor

Unemployment rate declines 7.0% in August--the lowest in five years.

### Housing

Low fixed-rate mortgages keep sales brisk.

### Automobiles

Late August sales boom sparked by lower interest rates!

### Budgets

State surpluses mount in all states but Nebraska.

### Income

Personal income rises most in the industrial belt.

### Money & Credit

The Fed forecasts 4% growth in second half 1985.

### Interest Rates, Yields & Securities Prices

Fixed-rate mortgages in the 12% range with no signs of further decline.

## 0.02 OVERVIEW

## SCHOOL DAYS

School days,
School days,
Good old golden rule days.
Readin' and Writin' and 'Rithmatic.

With a rap of the chalk on the blackboard, school is called to order once again as the lazy, hazy days of summer fade into memory, scrapbooks and teachers strikes.

In a sweeping gester, the teacher opens class with a spelling lesson and prints very large letters on the chalkboard: **PROTECTIONISM.** In a lecturing tone, it is explained that protectionism is the system of fostering and developing home industries through duties imposed on competitive imports. "Right on!," a jingoist in the class blurted out. "Keep the cheap imports out of this country. We're closing factories and losing jobs while our country is flooded with cheap shoes, cars and electronics."

The teacher tries to calm the irate student by explaining that his remarks are well taken, however, it would be economically destructive. To guarantee the survival of any job or industry would be to prohibit change--the outlawing of progress. Our government has never prohibited change and hopefully never will. A case in point being wooden wheels for horse-drawn buggies. Had they been protected where would our auto industry be today?

"Instead of protectionism," President Reagan has said, "we should call it destructionism--it destroys jobs, weakens our industries, harms exports, costs billions of dollars to consumers and damages our overall economy."

**KEDI** believes that the serious negotiations under way with the Japanese government will result in positive steps to balance trade. Only when the Japanese start to take the United States seriously will positive steps be taken. There is still blatant evidence that the Japanese keep American products off their shelves until Japanese industries have had sufficient time to copy the product or technology.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

| Indicator | Unit | 1985 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| Gross national product, p.5 | bil. 72$ | 1683.4 | 1866.5 | 1931.9 | 1970.5 |
| | % change | 2.7 | 3.9 | 3.5 | 2.0 |
| Index of indust. prod., p.5 | 1967=100 | 124.9 | 143.2 | 149.9 | 156.0 |
| | % change | 2.5 | 5.1 | 4.7 | 4.1 |
| Capacity utiliz., p.5 | % | 80.5 | 82.9 | 81.7 | 80.9 |
| | % change | -.4 | 1.1 | -1.4 | -1.0 |
| Unemployment rate, p. 5 | % | 7.3 | 6.7 | 6.8 | 6.8 |
| | % change | -2.9 | -4.1 | 1.1 | .3 |
| Private housing starts, p.5 | mil.units | 1.6 | 2.0 | 1.9 | 1.9 |
| | % change | -6.3 | 9.8 | -4.5 | -3.3 |
| Car sales, p.5 | mil.units | 10.5 | 11.7 | 11.6 | 11.5 |
| | % change | .7 | 9.9 | -.9 | -.8 |
| Implicit GNP price def., p.9 | 1972=100 | 232.4 | 267.2 | 281.3 | 294.3 |
| | % change | 4.0 | 5.4 | 5.3 | 4.6 |
| Consumer Price Index, p.9 | 1967=100 | 321.7 | 370.1 | 391.6 | 411.1 |
| | % change | 3.4 | 5.6 | 5.8 | 5.0 |
| Prod.Price Index (fin.goods),p.9 | 1967=100 | 295.9 | 328.0 | 347.6 | 361.2 |
| | % change | 1.6 | 6.7 | 6.0 | 3.9 |
| Federal Deficit p. 19 | bil. $ | -194.5 | -157.5 | -140.4 | -130.3 |
| | % change | 10.7 | -4.8 | -10.9 | -7.2 |
| Personal Income p. 21 | bil. $ | 3246.8 | 4038.1 | 4349.0 | 4653.5 |
| | % change | 7.8 | 8.2 | 7.7 | 7.0 |
| Prime Rate p. 25 | % | 10.2 | 8.6 | 9.3 | 9.7 |
| | % change | -15.4 | -10.1 | 7.3 | 5.2 |
| Mortgage Rate p. 25 | % | 13.0 | 11.2 | 11.7 | 11.0 |
| | % change | -6.1 | -2.1 | 3.8 | -6.1 |
| Currency+demand deposits, p. 23 | bil. $ | 602.0 | 683.1 | 723.5 | 758.2 |
| | % change | 10.5 | 6.6 | 5.9 | 4.8 |
| Commercial+ind. loans, p. 23 | bil. $ | 486.4 | 575.3 | 594.9 | 607.4 |
| | % change | 3.3 | 6.6 | 3.4 | 2.1 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged:

1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will be slightly higher; in 1987 it will go up to $29 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1986 or 1987.
3. **Relatively high interest rates and restrictive monetary and credit policies** will generally prevail in the 1985-1986 period. Easing in the first half of 1985 is seen as temporary. Relaxation will start in the middle of 1986. It will continue in 1987 and through most of 1988.
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.
7. **No drastic changes in international relationships** are anticipated.

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the September 1985 **KEDI** forecast. In 1985 and 1986 a moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to any recession or any major downturn. Financial outlook is also optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more acceptable level in 1987.

## TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates

| INDICATOR | GNP | Index of ind. prod. | Unemployment rate | Capacity util'n rate | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 121.8 | 7.52 | 80.8 | 1.7 | 10.4 |
| 1985:1* | 1663.5 | 123.8 | 7.32 | 80.5 | 1.8 | 10.9 |
| 2 | 1671.6 | 124.4 | 7.31 | 80.4 | 1.8 | 10.9 |
| 3 | 1693.1 | 125.1 | 7.26 | 80.5 | 1.5 | 10.1 |
| 4 | 1705.3 | 126.2 | 7.32 | 80.6 | 1.5 | 10.0 |
| YEAR | 1683.4 | 124.9 | 7.30 | 80.5 | 1.6 | 10.5 |
| % change from '84 | 2.7 | 2.5 | -2.89 | -.4 | -6.3 | .7 |
| 1986:1 | 1711.6 | 126.8 | 7.33 | 80.3 | 1.5 | 9.9 |
| 2 | 1722.7 | 128.2 | 7.37 | 80.6 | 1.7 | 10.2 |
| 3 | 1735.1 | 129.5 | 7.32 | 80.9 | 1.7 | 10.1 |
| 4 | 1749.3 | 131.6 | 7.24 | 81.2 | 1.7 | 10.3 |
| YEAR | 1729.7 | 129.0 | 7.32 | 80.8 | 1.7 | 10.1 |
| % change from '85 | 2.8 | 3.3 | .17 | .3 | .7 | -3.3 |
| 1987:1 | 1768.5 | 133.5 | 7.17 | 81.5 | 1.7 | 10.3 |
| 2 | 1787.3 | 134.7 | 7.12 | 81.8 | 1.9 | 10.5 |
| 3 | 1806.7 | 137.2 | 6.94 | 82.3 | 2.0 | 10.9 |
| 4 | 1823.4 | 139.5 | 6.83 | 82.2 | 1.8 | 11.0 |
| YEAR | 1796.5 | 136.2 | 7.02 | 82.0 | 1.9 | 10.7 |
| % change from '86 | 3.9 | 5.6 | -4.10 | 1.5 | 12.2 | 5.4 |

*Historical data.

Note: Index of industrial production and Capacity utilization rate reflect recent revisions made by the Federal Reserve System.

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

The teacher moves on to a lesson in arithmetic by posting GNP figures released by Commerce on August 20:

| **First estimate**<br>(released July 20) | **Second estimate**<br>(released August 20) |
|---|---|
| 1.7% growth | 2.0% growth |

Reaffirming, once again, that the economy is growing at a slow, moderate pace, **KEDI** believes the economy is stronger than reported data on the GNP indicate:

* Index of Industrial Production increased .5% in July.

* Index of leading indicators up .5% in July.

* Steel production increased 2.8% to 1.623 million tons in the week ended August 24, while Japanese steel imports dropped in July 38.1% from June, reflecting foreign steel's response to U. S. quotas.

* Decline of orders is meaningless because of its erratic nature. Durable goods fluctuate up and down monthly. Machine tool orders declined 35.9% in July, compared with a year ago, according to the National Tool Builders Association which has experienced declines over the past year.

* Sluggish retail sales in July will recover in September.

The most important indication of a strengthening economy is in the stability of prices, low inflation and more normal interest rates. This will encourage consumers to buy cars and other big-ticket items. Consumers are more confident that now is the time to go for the big tickets even though it flies in the face of government and private reports that show consumer spending is weak and unlikely to strengthen soon.

## TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product---------------* | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 1062.4 | 289.7 | -5.0 | 122.5 | 179.6 |
| 1985:1* | 1663.5 | 1089.1 | 292.1 | -28.4 | 129.8 | 180.9 |
| 2 | 1671.6 | 1103.3 | 288.1 | -33.3 | 129.8 | 183.7 |
| 3 | 1693.1 | 1116.0 | 291.6 | -32.2 | 130.8 | 186.9 |
| 4 | 1705.3 | 1115.4 | 298.3 | -29.9 | 132.0 | 189.5 |
| YEAR | 1683.4 | 1106.0 | 292.5 | -30.9 | 130.6 | 185.2 |
| % change from '84 | 2.7 | 4.1 | 1.0 | 519.0 | 6.6 | 3.1 |
| 1986:1 | 1711.6 | 1114.1 | 301.5 | -28.4 | 134.0 | 190.4 |
| 2 | 1722.7 | 1119.2 | 304.3 | -28.3 | 134.9 | 192.6 |
| 3 | 1735.1 | 1123.2 | 306.8 | -26.1 | 136.5 | 194.7 |
| 4 | 1749.3 | 1124.5 | 313.4 | -23.9 | 138.4 | 196.9 |
| YEAR | 1729.7 | 1120.2 | 306.5 | -26.7 | 135.9 | 193.7 |
| % change from '85 | 2.8 | 1.3 | 4.8 | -13.8 | 4.1 | 4.5 |
| 1987:1 | 1768.5 | 1138.2 | 316.2 | -25.2 | 140.6 | 198.7 |
| 2 | 1787.3 | 1148.6 | 320.5 | -23.8 | 142.3 | 199.7 |
| 3 | 1806.7 | 1152.4 | 328.4 | -21.8 | 145.1 | 202.6 |
| 4 | 1823.4 | 1156.0 | 334.2 | -19.7 | 147.8 | 205.1 |
| YEAR | 1796.5 | 1148.8 | 324.8 | -22.6 | 143.9 | 201.5 |
| % change from '86 | 3.9 | 2.5 | 6.0 | -15.2 | 5.9 | 4.1 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

After a brief recess, the teacher posts a forecast for the Consumer Price Index:

| | July-December 1985<br>(compared to 1st half 1985) | 1986<br>(compared to 1985) |
|---|---|---|
| Food | +.6 | +1.8 |
| Clothing | +.3 | +2.9 |
| Energy | +.7 | +2.8 |
| Medical | +.8 | +3.4 |
| Housing | +1.2 | +3.6 |
| Services | +1.8 | +4.7 |

**KEDI** does not expect any dramatic changes for the balance of this year. Prices of gasoline have fallen, but do not expect further decreases. World oil prices are stabilizing and are not expected to continue dropping, so look for increases in gasoline later this fall. Domestic oil prices are starting to rebound as Conoco and Sun Oil boost prices for crude by 40 cents and 25 cents respectively by September 1st. This could signal gradual increases as other oil producers follow suit.

In 1986 the CPI will go up faster than this year:

- More expensive imports.
- Sharper increases in prices of services: medical, repairs, banking, legal, real estate, hotels, to name a few.

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100.0 | 1967= 100 | 1972= 100.0 | 1972= 100.0 | 1972= 100.0 | 1972= 100.0 |
| Year & Qtr. | | | | | | |
| 1984* | 311.1 | 291.2 | 223.4 | 220.4 | 241.1 | 251.7 |
| 1985:1* | 317.4 | 292.5 | 229.1 | 224.7 | 246.5 | 261.0 |
| 2 | 321.2 | 293.7 | 230.6 | 227.4 | 249.5 | 264.7 |
| 3 | 322.3 | 297.1 | 233.9 | 230.9 | 251.3 | 265.5 |
| 4 | 325.8 | 300.1 | 236.1 | 234.1 | 254.0 | 266.8 |
| YEAR | 321.7 | 295.9 | 232.4 | 229.0 | 250.3 | 264.5 |
| % change from '84 | 3.4 | 1.6 | 4.0 | 3.9 | 3.8 | 5.1 |
| 1986:1 | 329.0 | 303.9 | 238.3 | 236.4 | 255.3 | 269.2 |
| 2 | 331.3 | 309.7 | 241.5 | 240.5 | 258.2 | 272.9 |
| 3 | 334.4 | 316.4 | 244.6 | 244.2 | 261.0 | 276.4 |
| 4 | 338.7 | 320.7 | 246.9 | 247.6 | 263.8 | 280.7 |
| YEAR | 333.4 | 312.7 | 242.8 | 242.2 | 259.6 | 274.8 |
| % change from '85 | 3.6 | 5.7 | 4.5 | 5.8 | 3.7 | 3.9 |
| 1987:1 | 344.6 | 325.1 | 248.1 | 247.7 | 265.1 | 280.9 |
| 2 | 348.4 | 328.7 | 251.5 | 252.0 | 268.7 | 283.1 |
| 3 | 352.7 | 334.8 | 255.0 | 257.5 | 272.3 | 285.0 |
| 4 | 356.2 | 240.9 | 259.3 | 245.0 | 275.0 | 387.2 |
| YEAR | 350.5 | 307.4 | 253.5 | 250.6 | 270.3 | 309.1 |
| % change from '86 | 5.1 | -1.7 | 4.4 | 3.5 | 4.1 | 12.5 |

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*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

Across from the schoolyard, dogs are heard barking at the Commerce Dog Pound. The dog days of August almost did in ole flash estimates. The heat crazed his canine brain.

Data released on August 20 confirms **KEDIs** position of several months that the economy is stronger that it would seem from the **TOTAL GNP** figure.

A close analysis of data reveals:

**Nonresidential Fixed Investment**
(bil. $)

| | **Structures** | **Durables** |
|---|---|---|
| 1984:4 | $157.9 | 284.1 |
| 1985:1 | 162.9 | 288.0 |
| 1985:2 | 186.3 | 296.2 |

This data reveals a good, sustained expansion with no weakness. The U. S. economy is expanding continuously, investing more and more into equipment such as new machinery which equals more durable goods and new plants which means more structures.

It is a myth to believe that the U. S. economy is weak.

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product | | | | | ---------------* |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 3662.2 | 2341.8 | 637.9 | -64.2 | 295.3 | 452.1 |
| 1985:1* | 3811.1 | 2446.7 | 646.8 | -74.5 | 320.0 | 455.3 |
| 2.0 | 3854.7 | 2508.6 | 640.9 | -93.4 | 323.9 | 486.3 |
| 3.0 | 3960.2 | 2576.6 | 646.2 | -87.6 | 328.7 | 496.2 |
| 4.0 | 4026.2 | 2610.8 | 658.1 | -83.6 | 335.3 | 505.6 |
| YEAR | 3912.6 | 2532.4 | 648.0 | -84.8 | 327.0 | 485.8 |
| % change from '84 | 6.8 | 8.1 | 1.6 | 32.0 | 10.7 | 7.5 |
| 1986:1 | 4078.7 | 2633.5 | 670.4 | -79.8 | 342.1 | 512.6 |
| 2.0 | 4160.3 | 2691.6 | 675.3 | -80.5 | 348.3 | 525.6 |
| 3.0 | 4244.1 | 2742.8 | 682.4 | -75.6 | 356.3 | 538.2 |
| 4.0 | 4319.0 | 2784.2 | 686.1 | -69.1 | 365.1 | 552.7 |
| YEAR | 4200.1 | 2712.7 | 678.5 | -76.2 | 352.9 | 532.3 |
| % change from '85 | 7.3 | 7.1 | 4.7 | -10.1 | 7.9 | 9.6 |
| 1987:1 | 4387.6 | 2818.8 | 706.5 | -68.5 | 372.7 | 558.1 |
| 2.0 | 4495.1 | 2894.2 | 717.2 | -64.1 | 382.4 | 565.4 |
| 3.0 | 4607.1 | 2967.7 | 730.4 | -63.5 | 395.1 | 577.4 |
| 4.0 | 4728.1 | 2832.5 | 756.7 | -61.7 | 406.5 | 794.1 |
| YEAR | 4553.6 | 2878.5 | 727.7 | -64.5 | 389.2 | 623.8 |
| % change from '86 | 8.4 | 6.1 | 7.2 | -15.5 | 10.3 | 17.2 |

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*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

Having just won substantial increases through the teacher's union, the teacher painted a long-term optimistic employment picture.

| | Unemployment Rate |
|---|---|
| 1984 | 7.5% |
| 1985 | 7.3% |
| 1986 | 7.3% |
| 1987 | 7.1% |
| 1988 | 6.7% |
| 1989 | 6.7% |
| 1990 | 6.8% |

The phenomenon occuring here is that the flood of imports is not really taking jobs away from Americans. Some jobs are lost, of course, but on balance the number of jobs available is increasing. Different technologies and skills required, yes, nevertheless jobs are available for those willing and capable of retraining to meet changing times.

Jobs arise to replace those lost to foreign competition. Despite the huge trade deficits stacked up in the last three years, the U. S. economy has added 7.8 million new jobs, and the unemployment rate has been falling steadily.

All this doesn't stop the protectionists from laying joblessness at the feet of the import gap, when in fact there is less joblessness than at any other time in America's history. For the first time ever in our history we now have over 100 million Americans at work. That is nearly 50% of our total population gainfully employed leaving the other half of the populace in craddles, schools or retired.

Congress and the Administration should resist the impulse to punish other countries for their talent in supplying our needs. This country can and will adapt to change. If we protect too much, too little could happen.

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR<br>Unit | Population<br>mil. | Civil. labor force<br>mil. | Total<br>mil. | Agricult.<br>mil. | Non-agric.<br>mil. | Unemployment rate<br>% |
| Year & Qtr. | | | | | | |
| 1984* | 237.4 | 113.5 | 105.0 | 3.4 | 101.6 | 7.52 |
| 1985:1* | 239.8 | 115.2 | 106.8 | 3.4 | 103.4 | 7.30 |
| 2* | 240.9 | 115.2 | 106.8 | 3.4 | 103.4 | 7.31 |
| 3.0 | 242.3 | 115.9 | 107.5 | 3.4 | 104.1 | 7.26 |
| 4.0 | 243.7 | 116.4 | 107.9 | 3.4 | 104.5 | 7.32 |
| YEAR | 241.7 | 115.7 | 107.2 | 3.4 | 103.8 | 7.30 |
| % change from '84 | 1.8 | 1.9 | 2.0 | 0.0 | 2.0 | -2.89 |
| 1986:1 | 244.5 | 116.9 | 108.3 | 3.4 | 104.9 | 7.33 |
| 2.0 | 245.5 | 117.8 | 109.1 | 3.4 | 105.7 | 7.37 |
| 3.0 | 246.4 | 118.3 | 109.6 | 3.4 | 106.2 | 7.32 |
| 4.0 | 247.7 | 119.3 | 110.7 | 3.4 | 107.3 | 7.24 |
| YEAR | 246.0 | 118.1 | 109.4 | 3.4 | 106.0 | 7.32 |
| % change from '85 | 1.8 | 2.1 | 2.1 | 0.0 | 2.1 | .17 |
| 1987:1 | 248.6 | 120.7 | 112.0 | 3.4 | 108.6 | 7.17 |
| 2.0 | 249.3 | 121.5 | 112.8 | 3.4 | 109.4 | 7.12 |
| 3.0 | 250.4 | 122.3 | 113.8 | 3.4 | 110.4 | 6.94 |
| 4.0 | 252.3 | 123.5 | 115.1 | 3.4 | 111.7 | 6.83 |
| YEAR | 250.2 | 122.0 | 113.4 | 3.4 | 110.0 | 7.02 |
| % change from '86 | 1.7 | 3.3 | 3.5 | 0.0 | 3.5 | -4.10 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

Before letting school out for lunch, the teacher asked how many students moved during the summer. A majority of hands went up.

The glut of new homes built in the first half are being bought up briskly in the second half of this year as interest rates remain attractive. With fixed-rate mortgage money at the 12.25% level, this reflects three percentage points lower than this time last year.

Encouraging news is that sales gains are resulting in strong demands for Federal Housing Administration mortgages, which go primarily to first-time home buyers according to Warren Lasko, executive vice president of the Mortgage Bankers Association. So, after many years of being denied home ownership because of astronomical interest rates, young people are jumping into the home-ownership game.

Also, the government revised upward its sales figures from April through June to reflect more strength than originally reported. Consequently, the previously reported 0.1% drop in June actually rose 2.2%, following an even better 4.6% May increase.

**1985 Housing Starts**

(tho. units, seasonally adjusted)

| | Total | Single-family |
|---|---|---|
| April | 1,933 | 1,155 |
| May | 1,681 | 1,039 |
| June | 1,694 | 1,034 |
| July | 1,654 | 1,045 |

A word of caution is due. **KEDI** still sees a winding down in the housing industry and is being sustained above expected levels due to attractive interest rates. This selling off of over-production in the first half should not be interpreted as strong demand, nor should it over-stimulate new housing starts.

## TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1984* | 1.084 | .665 | .298 | 1.679 | 97.0 | 87.0 |
| 1985:1* | 1.112 | .681 | .291 | 1.709 | 99.6 | 87.9 |
| 2* | 1.076 | .693 | .285 | 1.731 | 101.1 | 90.5 |
| 3.0 | .937 | .561 | .264 | 1.470 | 104.8 | 94.9 |
| 4.0 | .937 | .561 | .264 | 1.470 | 104.8 | 94.9 |
| YEAR | 1.016 | .624 | .276 | 1.595 | 102.6 | 92.1 |
| % change from '84 | -6.3 | -6.2 | -7.4 | -5.0 | 5.7 | 5.8 |
| 1986:1 | .897 | .631 | .241 | 1.472 | 105.8 | 95.5 |
| 2.0 | 1.014 | .643 | .246 | 1.525 | 107.1 | 96.2 |
| 3.0 | 1.103 | .625 | .270 | 1.587 | 107.2 | 97.8 |
| 4.0 | 1.069 | .582 | .274 | 1.621 | 108.4 | 99.4 |
| YEAR | 1.031 | .620 | .258 | 1.551 | 107.1 | 97.2 |
| % change from '85 | 1.5 | -.6 | -6.6 | -2.7 | 4.4 | 5.6 |
| 1987:1 | 1.105 | .641 | .261 | 1.611 | 109.5 | 100.6 |
| 2.0 | 1.219 | .668 | .297 | 1.719 | 112.7 | 102.8 |
| 3.0 | 1.286 | .682 | .316 | 1.895 | 117.3 | 103.7 |
| 4.0 | 1.151 | .657 | .307 | 1.848 | 118.8 | 104.2 |
| YEAR | 1.190 | .662 | .295 | 1.768 | 114.6 | 102.8 |
| % change from '86 | 15.4 | 6.7 | 14.5 | 14.0 | 7.0 | 5.8 |

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*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

Auto sales skyrocketed the last week of August after lagging all month, even with very attractive incentives in the 7.7% range. When you look at the incentives, however, it's never for the model you would like to buy. Quite simply, incentives are put on the lagging models to keep production lines humming. But this can't go on forever. The auto cycle is winding down. Most people have traded into newer cars so the demand is not as urgent.

Even with incentives, August sales were down 4.6% compared to August 1984. This drop is frustrated by increasing Japanese competition as Japan's vehicle production rose to a record high in July.

Japan's two largest car makers, Toyota and Nissan indicated that exports were especially brisk in July due to the relaxation of restrictions on passenger car exports to the United States and a demand surge in China in the midst of industrial modernization. Of the 1.106 million units built in Japan in July, Toyota shipped 192,434 units abroad while Nissan exported 147,791 cars and trucks.

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 10.4 | 8.0 | 2.4 | 1.4 | 8.0 | 3.3 |
| 1985:1* | 10.9 | 8.4 | 2.5 | 1.6 | 8.3 | 3.7 |
| 2* | 10.9 | 8.2 | 2.7 | 1.8 | 8.3 | 3.5 |
| 3 | 10.1 | 7.5 | 2.6 | 1.9 | 7.7 | 3.3 |
| 4 | 10.0 | 7.4 | 2.6 | 1.7 | 7.3 | 3.4 |
| YEAR | 10.5 | 7.9 | 2.6 | 1.7 | 7.9 | 3.5 |
| % change from '84 | .7 | -7.6 | 8.3 | 21.4 | -1.2 | 15.3 |
| 1986:1 | 9.9 | 7.2 | 2.7 | 1.6 | 7.3 | 3.4 |
| 2 | 10.2 | 7.4 | 2.8 | 1.7 | 7.5 | 3.6 |
| 3 | 10.1 | 7.2 | 2.9 | 1.7 | 7.5 | 3.4 |
| 4 | 10.3 | 7.5 | 2.8 | 1.6 | 7.4 | 3.3 |
| YEAR | 10.1 | 7.3 | 2.8 | 1.6 | 7.4 | 3.4 |
| % change from '85 | -3.3 | -11.0 | 7.7 | -5.9 | -6.0 | -1.4 |
| 1987:1 | 10.3 | 7.5 | 2.8 | 1.6 | 7.6 | 3.4 |
| 2 | 10.5 | 7.6 | 2.9 | 1.7 | 7.5 | 3.7 |
| 3 | 10.9 | 8.0 | 2.9 | 1.6 | 8.1 | 3.8 |
| 4 | 11.0 | 8.3 | 2.7 | 1.5 | 8.2 | 3.7 |
| YEAR | 10.7 | 7.9 | 2.8 | 1.5 | 7.8 | 1.5 |
| % change from '86 | 5.4 | 4.5 | .9 | -6.3 | 5.7 | -56.2 |

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*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

With summer vacations over for the President and the Congress, we can expect the fur to fly as a fiesty Congress seeks reelection and President Reagan seeks sanity in government. Certainly too soon to think of President Reagan as a lame duck, it is apparent he still has much work to do before he is finished in Washington. Nevertheless, he has a tough row to hoe with 22 seats up for reelection in the Senate. Particular pressure comes from the farmers, but the President has made it clear in the past that he won't be intimidated by **any** lobbyist.

While Defense has been taking the heat for sloppy contract management with defense contractors, a recent study released by the Pentagon negates many allegations. It points out that defense contractors have been investing in new equipment and facilities much more heavily than their commercial counterparts. This suggests that government incentives to encourage such modernization are not just tax loopholes and profit-making schemes.

With all the loud belly-aching from state and local governments over the past five years about federal reduction, or elimination, of many entitlement programs, only one state out of fifty--yes, only one state in the United States will end this year in the red. From last year's $45 million surplus, Nebraska will post a $24 million deficit for 1985. Granted, most states are mandated to operate on a balanced budget, but there still appears to be a mood of more efficiency in most statehouses as their surpluses continue to mount, confirming **KEDI**s belief that state and local surpluses will approximate the federal deficit by $80 billion by 1990.

## TABLE 1.50

## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----FEDERAL | ----------- | -----------* | *---STATE AND LOCAL | ------- | ----* |
|---|---|---|---|---|---|---|
| | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 315.0 | 70.9 | -175.7 | 120.3 | 19.1 | 53.0 |
| 1985:1* | 362.2 | 67.4 | -165.1 | 126.8 | 17.9 | 53.7 |
| 2* | 318.3 | 66.9 | -210.8 | 129.7 | 17.7 | 50.6 |
| 3 | 364.5 | 68.7 | -203.4 | 133.4 | 18.4 | 52.3 |
| 4 | 371.3 | 72.4 | -198.7 | 136.2 | 19.6 | 53.5 |
| YEAR | 354.1 | 68.9 | -194.5 | 131.5 | 18.4 | 52.5 |
| % change from '84 | 12.4 | -2.9 | 10.7 | 9.3 | -3.7 | -.9 |
| 1986:1 | 381.5 | 74.8 | -190.5 | 137.9 | 21.3 | 55.7 |
| 2 | 386.5 | 76.7 | -184.3 | 140.1 | 22.4 | 56.2 |
| 3 | 392.0 | 81.0 | -178.7 | 143.8 | 23.1 | 58.9 |
| 4 | 404.3 | 82.9 | -175.1 | 148.7 | 23.9 | 60.1 |
| YEAR | 391.1 | 78.8 | -182.2 | 142.6 | 22.7 | 57.7 |
| % change from '85 | 10.4 | 14.5 | -6.3 | 8.4 | 23.2 | 9.9 |
| 1987:1 | 408.3 | 83.4 | -174.6 | 149.6 | 24.5 | 61.1 |
| 2 | 422.6 | 86.8 | -170.2 | 151.7 | 25.1 | 63.4 |
| 3 | 434.5 | 89.0 | -162.4 | 155.3 | 26.0 | 65.6 |
| 4 | 441.3 | 91.4 | -154.7 | 158.2 | 27.1 | 69.3 |
| YEAR | 426.7 | 87.7 | -165.5 | 153.7 | 25.7 | 64.8 |
| % change from '86 | 9.1 | 11.2 | -9.2 | 7.8 | 13.2 | 12.3 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

Personal income is rising most dramatically right where it shouldn't, according to Labor Department statistics for 1983-1984. Right where it shouldn't is the **Industrial Belt**--already depressed by closing factories, stiff foreign competition, and dyed-in-the-wool collective bargaining. Against a national average of a 4.6% increase in personal income for the period, these states posted, even boasted of above-average concessions:

| State | Percent Increase |
|---|---|
| Michigan | 6.3% |
| Maryland | 6.1% |
| Massachusetts | 6.1% |
| New Jersey | 5.7% |
| Illinois | 5.4% |
| New York | 5.4% |

Corporate profits remain cautiously optimistic as some win, some lose, and some hang tight--so what else is new? Second quarter profits for auto makers were off from last year surprising no one. Computers and chemicals declined as well as silicon valley takes a breather and regroups. After five years of high flying, high tech took it in the neck. It had to happen as they gradually became overly cocky about just how many millions of us would grab the brass ring of computermania.

## TABLE 1.60

## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1984* | 3012.1 | 2576.9 | 2173.2 | 146.3 | 156.1 | 368.5 |
| 1985:1* | 3133.3 | 2644.3 | 2272.7 | 137.0 | 118.6 | 374.6 |
| 2 | 3182.4 | 2734.4 | 2305.2 | 136.5 | 136.1 | 376.1 |
| 3 | 3310.7 | 2812.8 | 2337.4 | 140.1 | 142.3 | 377.4 |
| 4 | 3360.9 | 2853.4 | 2360.5 | 147.5 | 147.5 | 383.2 |
| YEAR | 3246.8 | 2761.2 | 2318.9 | 140.3 | 136.1 | 377.8 |
| % change from '84 | 7.8 | 7.2 | 6.7 | -4.1 | -12.8 | 2.5 |
| 1986:1 | 3403.1 | 2883.7 | 2400.1 | 150.2 | 152.1 | 384.1 |
| 2 | 3474.4 | 2947.8 | 2461.3 | 152.4 | 156.8 | 387.7 |
| 3 | 3534.8 | 2999.0 | 2407.2 | 160.0 | 155.9 | 395.2 |
| 4 | 3599.4 | 3046.4 | 2560.3 | 166.2 | 160.8 | 404.3 |
| YEAR | 3502.9 | 2969.2 | 2457.2 | 157.2 | 156.4 | 392.8 |
| % change from '85 | 7.9 | 7.5 | 6.0 | 12.1 | 14.9 | 4.0 |
| 1987:1 | 3643.2 | 3085.3 | 2620.5 | 170.2 | 164.3 | 409.5 |
| 2 | 3739.6 | 3165.3 | 2668.7 | 174.3 | 168.0 | 413.7 |
| 3 | 3833.6 | 3243.8 | 2750.3 | 180.1 | 172.4 | 422.1 |
| 4 | 3711.9 | 3112.4 | 2831.4 | 185.7 | 175.7 | 426.3 |
| YEAR | 3732.1 | 3151.7 | 2717.7 | 177.6 | 170.1 | 417.9 |
| % change from '86 | 6.5 | 6.1 | 10.6 | 13.0 | 8.8 | 6.4 |

---

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

Finally, the Federal Reserve has admitted that second half 1985 will grow at 4%. At **KEDI** we define that as **good news** and **bad news**. Good because it finally takes the gloom out of media pessimists who continually scream of doomsday. **KEDI** feels that much of the mediascream is for attention-getting purposes and rating motivated. The **bad news** is that the recent Fed forecast would appear to be politically motivated in an effort to stem the growing demand for an easier monetary policy. So, up the growth forecast, and gain some time to watch performance. The Fed just doesn't want to be pushed into further easing of the money supply at this point. **KEDI** agrees. The Fed has to slow down the money supply, otherwise **inflation**! The Fed has to restrict the growth of M1 money and increase interest rates.

With huge trade deficits and the dollar softening against most currencies, except the Japanese Yen, manufacturing should not expect help from the softer dollar.

**U. S. Trade Deficits**

(bil. $)

| **Country** | **1984** | **1985** |
|---|---|---|
| Japan | $36.8 | $45.3 |
| Canada | 20.4 | 21.7 |
| Taiwan | 11.4 | 13.6 |
| West Germany | 8.7 | 8.2 |
| Mexico | 6.3 | 5.8 |
| Hong Kong | 5.8 | 6.5 |
| Brazil | 5.6 | 6.9 |
| Indonesia | 4.7 | 4.0 |
| Italy | 4.1 | 3.4 |
| South Korea | 4.0 | 3.8 |

## TABLE 1.70

## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 545.0 | 2277.4 | 460.5 | 470.7 | 416.8 | 555.3 |
| 1985:1* | 568.1 | 2416.4 | 472.9 | 473.1 | 423.0 | 561.4 |
| 2* | 582.6 | 2448.2 | 494.3 | 477.9 | 423.2 | 569.8 |
| 3 | 596.4 | 2410.1 | 499.8 | 482.3 | 430.1 | 580.5 |
| 4 | 660.8 | 2559.3 | 508.3 | 486.4 | 435.1 | 584.0 |
| YEAR | 602.0 | 2458.5 | 508.3 | 486.4 | 435.1 | 584.0 |
| % change from '84 | 10.5 | 8.0 | 10.4 | 3.3 | 4.4 | 5.2 |
| 1986:1 | 604.5 | 2603.7 | 514.2 | 489.7 | 440.7 | 590.1 |
| 2 | 611.3 | 2656.9 | 519.7 | 493.2 | 448.7 | 592.8 |
| 3 | 616.3 | 2706.8 | 526.7 | 509.1 | 451.5 | 598.3 |
| 4 | 620.9 | 2789.5 | 531.9 | 513.1 | 460.4 | 609.3 |
| YEAR | 613.2 | 2689.2 | 531.9 | 513.1 | 460.4 | 609.3 |
| % change from '85 | 1.9 | 9.4 | 4.6 | 5.5 | 5.8 | 4.3 |
| 1987:1 | 629.4 | 2840.5 | 537.4 | 518.1 | 467.3 | 613.4 |
| 2 | 637.1 | 2908.3 | 540.2 | 520.2 | 475.1 | 618.0 |
| 3 | 644.6 | 2962.8 | 547.3 | 526.4 | 480.4 | 628.8 |
| 4 | 652.3 | 3014.2 | 554.4 | 539.7 | 486.8 | 640.5 |
| YEAR | 640.9 | 2931.4 | 554.4 | 539.7 | 486.8 | 640.5 |
| % change from '86 | 4.5 | 9.0 | 4.2 | 5.2 | 5.7 | 5.1 |

---

*Historical data.
s.a.: seasonally adjusted at annual rates.
n.s.a.: not seasonally adjusted.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

**KEDI** forecasts slight increases in interest rates through the balance of 1985. These increases will continue through the first half of 1986. Then look for some easing not earlier than the second half of 1986 and into most of 1987.

**KEDI** forecasts that the economy will start to accelerate late in 1987 after enjoying lower interest rates which will bring about an upward trend in interest rates again throughout 1988.

**FORECAST OF TRENDS**

| | **The Economy** | **Interest Rates** |
|---|---|---|
| 1985, 2nd half | Moderate growth | Slightly up |
| 1986 through 1st half, 1987 | Slow growth | Slightly down to stimulate economy |
| 1987, 2nd half | Faster growth | No further declines |
| 1988 | Rapid growth | Up |

Some analysts feel that the 12% range for mortgage money is as low as she goes, while others feel that a 10% fixed-rate range would open the flood gate for many first-time buyers.

In a year we have seen the following:

| | **August 1985** | **August 1984** |
|---|---|---|
| 6-mo T-Bills | 7.52% | 11.28% |
| 1-yr. T-Bills | 7.88% | 11.69% |
| 2-yr. T-Note | 8.82% | 12.37% |
| 10-yr. T-Note | 10.12% | 12.63% |
| 30-yr. T-Note | 10.41% | 12.42% |
| 30-day money supply | $6.76 bil. | $5.23 bil. |

## TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1984* | 9.52 | 12.04 | 13.84 | 12.65 | 12.36 | 160.50 |
| 1985:1* | 8.18 | 10.54 | 13.28 | 12.06 | 11.41 | 177.30 |
| 2 | 7.78 | 10.02 | 13.11 | 12.18 | 10.40 | 189.17 |
| 3 | 7.48 | 10.03 | 12.78 | 11.96 | 10.53 | 191.46 |
| 4 | 7.75 | 10.14 | 12.82 | 11.63 | 10.22 | 188.29 |
| YEAR | 7.80 | 10.18 | 13.00 | 11.96 | 10.64 | 186.56 |
| % change from '84 | -18.1 | -15.4 | -6.1 | -5.5 | -13.9 | 16.2 |
| 1986:1 | 8.09 | 10.37 | 12.78 | 11.04 | 10.75 | 187.43 |
| 2 | 8.30 | 10.65 | 12.45 | 10.95 | 10.54 | 181.25 |
| 3 | 8.17 | 10.28 | 11.85 | 10.78 | 10.22 | 189.83 |
| 4 | 8.10 | 10.50 | 11.47 | 10.25 | 10.13 | 185.80 |
| YEAR | 8.16 | 10.45 | 12.14 | 10.75 | 10.41 | 186.08 |
| % change from '85 | 4.7 | 2.6 | -6.6 | -10.1 | -2.2 | -.3 |
| 1987:1 | 7.94 | 10.16 | 11.34 | 10.74 | 9.92 | 183.27 |
| 2 | 7.29 | 9.74 | 11.19 | 10.39 | 9.64 | 191.66 |
| 3 | 7.10 | 9.35 | 11.56 | 10.57 | 9.82 | 195.43 |
| 4 | 6.84 | 9.18 | 11.84 | 10.79 | 10.06 | 198.81 |
| YEAR | 7.29 | 9.61 | 11.48 | 10.62 | 9.86 | 192.29 |
| % change from '86 | -10.7 | -8.1 | -5.4 | -1.2 | -5.3 | 3.3 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

### 8.0 SIMULATION OF MARKETS

In previous issues, the Multiple Market Simulation Method (**MMS**), a proprietary and trade-marked method of **KEDI** has been described. In this issue, the location of this method in the inventories-production-consumption-marketing cycle will be discussed.

### **MMS** FORECAST GENERATION

**MMS** generates forecast data for any market for any commodity, or a system of markets for many commodities: five brands of men's shoes, seven kinds of soft drinks, 14 types of stainless steel, or eight types of mortgages--with variables.

**MMS** simulates the behavior of sellers and buyers on these markets in the future. At each market, sellers meet buyers. Each adj~~ust~~s quantities they would like to purchase and sell and prices they want to pay and charge. They adjust these quantities and prices instantaneously--or bargain for them.

Let's look at how this fits into the process of production-selling-purchasing-consumption of any commodity. For any commodity there are producers and consumers, sellers and purchasers:

REFRIGERATORS

| Producers | | Consumers | |
|---|---|---|---|
| Initial Stock | 7,000 | Initial Stocks | 35,000 |
| Production | 5,000 | **Purchases** | **8,000** |
| **Sales** | **8,000** | Consumption | 2,000 |
| Ending Stocks | 4,000 | Ending stocks | 41,000 |

(Continued on page 27.)

## THE KENT ECONOMIC FORECASTING SYSTEM

**On the producers side:**

At the beginning of the period, producers and retailers have 7,000 refrigerators in stock. An additional 5,000 refrigerators are produced during the period. This makes 12,000 units available for sale. If 8,000 are sold, producers have an ending inventory of 4,000.

**On the consumers side:**

Consumers already have 35,000 refrigerators, and they buy another 8,000. They discard 2,000 in junkyards, and end up with 41,000.

The market for refrigerators pertains to two items in boldface: Purchases and Sales. This is where **MMS** comes into play. **MMS** simulates purchases and sales in the future. Will 6,000 refrigerators be sold, or 6,500? At what price? These are questions **MMS** answers.

**MMS** is highly accurate. **KEDI** has used it for more than two years with accuracy of plus or minus .5% for forecasts one year ahead, in quarterly intervals.

**MMS** takes into account the following factors that may influence purchases, sales and prices:

**EXTERNAL FACTORS**

EXPECTED: Sellers' Receipts
Buyers Expenditures

CHANGES IN: Tastes
Technology
Production Patterns
Market Trends
Incoming Business for New Products
Patterns of Marketing

**INTERNAL FACTORS:**

Substitutability Among Close Products
Complementarity
Promotion Efficiency

(Continued in the next issue.)

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Personal Consumption Expenditures on Nondurabes in 1984** has been selected for comparison. The actual figure is the May 1985 estimate of the U. S. Department of Commerce, **Survey of Current Business,** May 1985, Table 1.1) Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

**COMPARISONS OF ACCURACY OF PREDICTIONS**
(Personal Consumption Expenditures on Nondurables, 1984, bil. $)
**Actual figure: 877.9**

| **Forecaster (and page in source)** | **Date of Forecast** | **Forecast** | **Accuracy %** |
|---|---|---|---|
| Georgia State University, p. 21 | 11/83 | 878.0 | .0 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 865.6 | -1.4 |
| Research Seminar in Quantitative Economics, Univ.of Michigan, p.24 | 11/17/83 | 873.5 | -.5 |
| UCLA Business Forecasting Project, p.26 | 12/83 | 863.6 | -1.4 |
| Citicorp Information Service, p. 27 | 12/1/83 | 869.1 | -1.0 |
| Metropolitan Life Insurance Co., p.28 | 12/1/83 | 884.2 | +.7 |
| Fidelity Bank, p. 32 | 12/19/83 | 878.4 | +.1 |
| Evans Economics, Inc., p. 34 | 12/22/83 | 859.9 | -2.1 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **872.1** | **-.7** |
| Standard & Poor's Corp, p. 44 | 1/12/84 | 861.1 | -1.9 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 869.4 | -.9 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

**HISTORICAL DATA SOURCES**

| **Table Number** | **Data Series** | **Source** |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:** Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:** Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

P4550-1

# KEDI ECONOMIC SURVEY

October 1, 1985

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE, INC.

P.O. Box 99
Tallmadge, Ohio 44278 U.S.A.

# KEDI ECONOMIC SURVEY

October 1, 1985

Prepared by the staff of
**Kent Economic and Development Institute, Inc.**
P.O. Box 99
Tallmadge, Ohio 44278
(216) 673-8249

**Dr. Vladimir J. Simunek**
**President**

**Peter Hoff**
**Editor**

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## CONTENTS

Page

0.00 Introduction

0.01 Executive Summary 1
0.02 Overview 2
0.03 Assumptions 4
0.04 Forecast Highlights 4

1.00 Detailed Forecasts

1.10 Real Growth 6
1.20 Prices and Nominal GNP
  1.21 Prices 8
  1.22 Nominal GNP 10
1.30 Employment and Labor 12
1.40 Housing and Automobiles
  1.41 Housing 14
  1.42 Automobiles 16
1.50 Budgets 18
1.60 Income 20
1.70 Money and Credit 22
1.80 Interest Rates, Yields and Securities Prices 24

2.00 The Kent Economic Forecasting System (continued) 26

3.00 Comparisons of Accuracy of Predictions 28

4.00 Historical Data Sources 29

## TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Real GNP 7
1.21 Prices 9
1.22 Nominal GNP 11
1.30 Employment and Labor 13
1.41 Housing 15
1.42 Automobiles 17
1.50 Budgets 19
1.60 Income 21
1.70 Money and Credit 23
1.80 Interest Rates, Yields, and Security Prices 25
2.00 Comparisons of Accuracy of Predictions 28
3.00 Historical Data Sources 29

SOURCES:

U.S.Department of Commerce third estimates of 1985:2 National Income and Product data, September 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, September 1985.

The lastest available data on prices, employment, industrial, and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

### Highlights

Protectionist legislation will provoke the world to pay us back in kind. Is American pride worth the price of **MADE IN AMERICA**?

### Real Growth

Durable goods continues to show steady, moderate growth. Capacity utilization nudged up a little in August boosted by automakers operating at 86.7%.

### Prices

Expected decline in US dollar pushes up forecast data for **CPI, PPI** and **GNP.**

### Employment & Labor

**37,000** new jobs for manufacturing in August takes the sting out of some economist's pessimism.

### Housing

Further declines in mortgage rates spurs August sales up by 9.2% over July to a six year record high of 3.43 million units annualized.

### Automobiles

**Detroit keeps pounding away with low interest rate incentives** catching Japan with their kimonos down.

### Budgets

The Administration's continuous **battle of the budget** draws a lot of groaning from state and local governments.

### Income

Forecast data point to a good outlook for Personal Income, Personal Disposable Income and Compensation of Employees.

### Money & Credit

World depression would emerge if protectionists measures, along the Smoot-Hawley model were enacted.

### Interest Rates, Yields & Securities Prices

**KEDI** believes Fed Chairman Volcker will push for realistic downward adjustments in the dollar against the Japanese Yen.

## 0.02 OVERVIEW

## MADE IN AMERICA?

**Protectionist legislation will provoke the world to pay us back in kind.** This stern warning came from leading economists in 1930 urging President Hoover to veto the Smoot-Hawley Tariff Act which threw up trade barriers around the United States with disastérous results.

The roller coaster is gaining speed down the tracks of **inflation, isolation,** and **protectionism** as the **MADE IN THE USA** and **PRIDE IN AMERICA** media blitzes ravage America. TV commericals air with flags waving, back slapping, and good-ole-boy themes. Then we have Bob Hope showing us the label of his coat, exhorting us to **buy America.** This kind of mass hysteria influences idle workers who have lost their feisty edge after playing **king of the hill** for the last forty years.

This has been a season for drumming up aid of one kind or another: farmers, hunger and disease. Popular music warms that "if the farmer don't work--we don't eat." Over-the-hill athletes guzzle beer in TV ads while the background music sings **made in** America themes.

All of this throws fuel on the Protectionism movement.

The same pressures abound in the USA today that brought about the Smoot-Hawley Tariff Act of 1930, resulting in the Great Depression of the 1930s and World War II. Quite an accomplishment for one piece of legislation. This ill-advised tariff act isolated America from the world arena of trade. In spite of such monumental disasters barely fifty years old, with nagging scars remaining, America is barking dangerously! The world hears our bark--and surely knows our bite.

Is American pride worth the price of **MADE IN AMERICA?**

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

| Indicator | Unit | 1985 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| Gross national product, p.5 | bil. 72$ | 1683.7 | 1867.2 | 1930.6 | 1973.1 |
| | % change | 2.7 | 3.8 | 3.4 | 2.2 |
| Index of indust. prod., p.5 | 1967=100 | 124.9 | 143.7 | 150.3 | 156.6 |
| | % change | 2.5 | 5.1 | 4.6 | 4.2 |
| Capacity utiliz., p.5 | % | 80.5 | 83.1 | 82.1 | 81.3 |
| | % change | -.3 | 1.1 | -1.2 | -1.0 |
| Unemployment rate, p. 5 | % | 7.2 | 6.6 | 6.7 | 6.8 |
| | % change | -4.1 | -4.1 | 1.1 | 1.1 |
| Private housing starts, p.5 | mil.units | 1.7 | 2.0 | 2.0 | 1.9 |
| | % change | -3.7 | 9.8 | -3.9 | -2.1 |
| Car sales, p.5 | mil.units | 10.6 | 11.9 | 11.9 | 11.8 |
| | % change | 1.7 | 10.4 | -.5 | -.8 |
| Implicit GNP price def., p.9 | 1972=100 | 233.4 | 267.9 | 282.9 | 295.6 |
| | % change | 4.5 | 5.5 | 5.6 | 4.5 |
| Consumer Price Index, p.9 | 1967=100 | 323.3 | 370.6 | 392.1 | 412.1 |
| | % change | 3.9 | 5.6 | 5.8 | 5.1 |
| Prod.Price Index (fin.goods),p.9 | 1967=100 | 296.6 | 362.4 | 384.8 | 399.8 |
| | % change | 1.8 | 6.9 | 6.2 | 3.9 |
| Federal Deficit p. 19 | bil. $ | -193.4 | -150.2 | -133.5 | -123.1 |
| | % change | 10.1 | -7.7 | -11.1 | -7.8 |
| Personal Income p. 21 | bil. $ | 3263.5 | 4105.1 | 4429.4 | 4739.4 |
| | % change | 8.3 | 8.5 | 7.9 | 7.0 |
| Prime Rate p. 25 | % | 10.0 | 8.2 | 8.9 | 9.4 |
| | % change | -17.2 | -10.4 | 7.8 | 6.1 |
| Mortgage Rate p. 25 | % | 12.8 | 11.0 | 11.4 | 10.7 |
| | % change | -7.4 | -2.9 | 3.6 | -6.0 |
| Currency+demand deposits, p. 23 | bil. $ | 591.8 | 690.7 | 730.7 | 765.1 |
| | % change | 8.6 | 6.9 | 5.8 | 4.7 |
| Commercial+ind. loans, p. 23 | bil. $ | 488.2 | 575.7 | 594.2 | 607.8 |
| | % change | 3.7 | 6.4 | 3.2 | 2.3 |

Numbers in "% change" rows show percent changes over the previous year.

## 0.03 ASSUMPTIONS

Assumptions Numbers 1, 2 and 3 have been updated in this issue.

| | Last Update |
|---|---|
| 1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will level off; in 1987 it will go up to $28 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel. | March 1985 |
| 2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1987 or 1988. | Jan. 1985 |
| 3. **A longer-lasting relaxation in monetary and credit policies** will start in the middle of 1986. It will continue in 1987 and through most of 1988. | Jan. 1985 |
| 4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated. | Jan. 1984 |
| 5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years. | Jan. 1984 |
| 6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%. | Feb. 1985 |
| 7. **No drastic changes in international relationships** are anticipated. | **Permanent Assumption** |

## 0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the October 1985 **KEDI** forecast. In 1985 and 1986 moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to recession or major downturn. Financial outlook is optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more acceptable level in 1986.

## TABLE 1.11

## SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates

| INDICATOR | GNP | Index of ind. prod. | Unemployment rate | Capacity util'n rate | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $72 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 121.8 | 7.52 | 80.8 | 1.7 | 10.4 |
| 1985:1* | 1663.5 | 123.8 | 7.32 | 80.5 | 1.8 | 10.9 |
| 2* | 1671.3 | 124.4 | 7.31 | 80.4 | 1.8 | 10.9 |
| 3 | 1693.0 | 125.0 | 7.21 | 80.6 | 1.6 | 10.4 |
| 4 | 1706.8 | 126.4 | 7.02 | 80.7 | 1.5 | 10.1 |
| YEAR | 1683.7 | 124.9 | 7.21 | 80.5 | 1.7 | 10.6 |
| % change from '84 | 2.7 | 2.5 | -4.06 | -.3 | -3.7 | 1.7 |
| 1986:1 | 1713.1 | 127.0 | 7.14 | 80.4 | 1.5 | 9.9 |
| 2 | 1724.7 | 128.5 | 6.97 | 80.9 | 1.7 | 10.3 |
| 3 | 1737.2 | 130.1 | 6.92 | 81.2 | 1.7 | 10.1 |
| 4 | 1752.4 | 132.0 | 7.04 | 81.3 | 1.7 | 10.4 |
| YEAR | 1731.8 | 129.4 | 7.02 | 81.0 | 1.7 | 10.2 |
| % change from '85 | 2.9 | 3.6 | -2.74 | .5 | -1.8 | -3.8 |
| 1987:1 | 1769.8 | 134.1 | 7.08 | 81.8 | 1.7 | 10.3 |
| 2 | 1789.4 | 135.0 | 6.95 | 81.9 | 1.9 | 10.8 |
| 3 | 1809.7 | 137.8 | 6.81 | 82.5 | 2.0 | 11.1 |
| 4 | 1826.3 | 139.9 | 6.72 | 82.7 | 1.8 | 11.0 |
| YEAR | 1798.8 | 136.7 | 6.89 | 82.2 | 1.9 | 10.8 |
| % change from '86 | 3.9 | 5.6 | -1.82 | 1.6 | 12.1 | 6.1 |

*Historical data.

Note: Index of industrial production and Capacity utilization rate reflect recent revisions made by the Federal Reserve System.

## 1.00 DETAILED FORECASTS

### 1.10 REAL GROWTH

See Tables 1.11 and 1.12 - pages 5 and 7.

In the US domestic economy, **Durable goods** continues to show steady, moderate growth in line with **KEDIs** forecast of 3%, or slightly below through 1985. Cars and guns were at the top of the big-ticket sales. Commerce Secretary Baldrige has obviously been deafened by "ole flash"'s mean bark at the Commerce Dog Pound. Certainly he hasn't been aware that the economy has been perking along just fine when he stated that the recent increases were "encouraging news" that the economy was reviving after a yearlong slump in activity. **Where has he been for the past year?**

**Capacity utilization** nudged up a little, boosted by automakers' 86.7% operating rate in August.

| Industry | August<br>Capacity Utilization | Change |
|---|---|---|
| Total | 80.5% | +.1% |
| Autos | 86.7% | +3.3% |
| Mines | 81.3% | - .5% |
| Steel | 62.1% | - .2% |

With sales brisk and inventories flat during the beginning of third quarter warehouses were cleared for increased production. At the July sales pace, overall, producers have only 1.37 months in inventory

**Corn** has a bumper year yielding 8.47 billion bushels--11% above 1984. All of this points to **KEDIs** forecast of recent months for solid **moderate** growth.

**KEDI** strongly disagrees with Beryl Sprinkel, Chairman of the Council of Economic Advisers, who predicts 5% growth in the second half of 1985. That's just wishful thinking. Allan Greenspan has been staring into blue skies too long as well when he calls for 3% in 1985:3 and 4.4% in 1985:4.

## TABLE 1.12

## REAL GNP

Quarterly data are seasonally adjusted at annual rates

| INDICATOR | *-----------Gross National Product | | | | | ---------------* |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. | $72 bil. |
| Year & Qtr. | | | | | | |
| 1984* | 1639.3 | 1062.4 | 289.7 | -5.0 | 122.5 | 179.6 |
| 1985:1* | 1663.5 | 1089.1 | 292.1 | -28.4 | 129.8 | 180.9 |
| 2* | 1671.3 | 1102.0 | 289.5 | -33.8 | 129.7 | 183.9 |
| 3 | 1693.0 | 1115.2 | 291.7 | -30.1 | 130.1 | 186.1 |
| 4 | 1706.8 | 1115.9 | 298.9 | -27.4 | 131.4 | 188.0 |
| YEAR | 1683.7 | 1105.6 | 293.1 | -29.9 | 130.2 | 184.7 |
| % change from '84 | 2.7 | 4.1 | 1.2 | 498.5 | 6.3 | 2.9 |
| 1986:1 | 1713.1 | 1113.8 | 303.6 | -26.6 | 132.6 | 189.7 |
| 2 | 1724.7 | 1118.3 | 305.7 | -25.1 | 134.0 | 191.8 |
| 3 | 1737.2 | 1123.8 | 307.9 | -24.3 | 135.9 | 193.9 |
| 4 | 1752.4 | 1127.2 | 313.8 | -22.4 | 137.8 | 196.0 |
| YEAR | 1731.8 | 1120.8 | 307.8 | -24.6 | 135.1 | 192.8 |
| % change from '85 | 2.9 | 1.4 | 5.0 | -17.8 | 3.7 | 4.4 |
| 1987:1 | 1769.8 | 1137.7 | 317.9 | -23.1 | 139.0 | 198.3 |
| 2 | 1789.4 | 1146.6 | 322.4 | -20.2 | 141.6 | 199.0 |
| 3 | 1809.7 | 1153.0 | 329.6 | -18.8 | 143.8 | 202.1 |
| 4 | 1826.3 | 1155.9 | 335.7 | -17.1 | 146.9 | 204.9 |
| YEAR | 1798.8 | 1148.3 | 326.4 | -19.8 | 142.8 | 201.1 |
| % change from '86 | 3.9 | 2.5 | 6.1 | -19.5 | 5.7 | 4.3 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Table 1.21 - page 9

Expected decline in the international value of the US dollar has changed forecast data up slightly from last month for **CPI, PPI** and **GNP.** This is fostered as well by spreading price increases sweeping through steel company board rooms. Unfortunately, steel prices are not warranted at this time and are seen as smoke screens to cover ever-deteriorating productivity. Price increases will hold only in periods of strong demand. It is too soon for a surge in domestic demand in the hope that steel imports will ebb as the dollar adjusts downward. **KEDI** sees the attempt to push steel up $60 a ton, or a 15% price increase, as **INFLATIONARY,** unwarranted, and sure to hinder rather than help the **im-ex gap.**

With **OPEC** struggling to stay alive and remain a viable influence in world oil prices, don't count on that to bring down oil prices. While Saudi Arabia remains the rational voice of OPEC, there is more wheeling and dealing on the high seas than meets the eye. Oil can be sold and resold countless times once it has hit the high seas in the form of **spot,** or noncontract, for immediate delivery.

In spite of the weak world demand for oil resulting in price adjustments, **KEDI** warns against the dreamers who see oil in the $10-$15 per barrel range. The Saudi Arabians have proved in the past five years that they will leave the oil in the ground rather than giving it away. They have cut daily production from a high of 10 million barrels to a new August low of 2 million. This has infuriated the Saudis as they watch other OPEC members exceed production quotas and secretly discount prices below official levels. All of this points to the ever-increasing lack of stability in the Middle East. They never have had much respect [or trust] for each other. These recent back-stabbing episodes within their own once-esteemed oil cartel only hightened [and hastened] the inevitable regression of the camel kingdoms back to the warring petty-potentate fiefdoms from whence they came. Greed has firmly grasped **OPEC** and reasoning no longer prevails.

## TABLE 1.21

## PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1972= 100 | 1972= 100 | 1972= 100 | 1972= 100 |
| Year & Qtr. | | | | | | |
| 1984* | 311.1 | 291.2 | 223.4 | 220.4 | 241.1 | 251.7 |
| 1985:1* | 317.4 | 292.5 | 229.1 | 224.7 | 246.5 | 261.0 |
| 2* | 321.2 | 293.7 | 230.6 | 227.6 | 250.7 | 264.7 |
| 3 | 325.6 | 297.5 | 236.0 | 233.5 | 254.9 | 266.9 |
| 4 | 329.1 | 302.5 | 238.1 | 236.5 | 255.9 | 269.4 |
| YEAR | 323.3 | 296.6 | 233.4 | 230.2 | 252.0 | 265.5 |
| % change from '84 | 3.9 | 1.8 | 4.5 | 4.4 | 4.5 | 5.5 |
| 1986:1 | 329.1 | 302.5 | 238.1 | 235.8 | 255.9 | 269.4 |
| 2 | 331.6 | 308.4 | 241.4 | 239.9 | 258.6 | 273.1 |
| 3 | 334.8 | 313.7 | 244.7 | 243.6 | 261.4 | 276.6 |
| 4 | 339.0 | 318.3 | 247.0 | 247.2 | 264.3 | 280.9 |
| YEAR | 333.6 | 310.7 | 242.8 | 241.6 | 260.1 | 275.0 |
| % change from '85 | 3.2 | 4.8 | 4.0 | 5.0 | 3.2 | 3.6 |
| 1987:1 | 344.9 | 353.6 | 248.8 | 248.3 | 265.8 | 281.2 |
| 2 | 349.0 | 328.1 | 251.9 | 252.6 | 269.2 | 283.5 |
| 3 | 353.1 | 334.2 | 255.2 | 257.2 | 272.8 | 285.2 |
| 4 | 356.8 | 340.0 | 259.7 | 263.1 | 276.2 | 287.4 |
| YEAR | 350.9 | 339.0 | 253.9 | 255.2 | 271.0 | 284.3 |
| % change from '86 | 5.2 | 9.1 | 4.6 | 5.6 | 4.2 | 3.4 |

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*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 11

**Free trade** works just fine as long as you're winning. The US is a country of winners. We pound it into children from birth. **Be the best! Be a winner!** No proud father coaches his son to be second best. But that is exactly the mood Congress is debating. Instead of accepting the challenge with ensuing battles of efficiency and productivity in the factories to remain number one, Congress is being pressured by lobbyists to legislate a permanent winner status for America in the form of protectionist tariffs.

Fortunately, saner minds are at work at The White House and Federal Reserve as President Reagan tries to take the bee out of the Congressional bonnet by introducing more aggressive policies to open foreign markets to American goods.

**This is the only sane path to follow in world trade.**

The President has said he will initiate serious investigations into unfair trading practices with Japan and other Asian countries, as well as our European and South American trading partners. These thrusts from the Administration should buy time, if nothing else, and defuse the issue. If nothing else it will add clout to a **poised veto pen** surely to greet any such legislation put before him.

Forecast data for Nominal GNP in 1986 and 1987 will increase slightly resulting from the combined effects of:

* Anticipated faster rate of inflation.

* Increase in forecast data for components of GNP in **real** terms.

* Decline in negative data for net exports because of expected decline in international value of US dollar.

* Expect Japanese Yen at 200-210 against $1 US.

* Western European currencies should not devalue against the dollar. It would hurt European exports to the US.

## TABLE 1.22

## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates

| | *------------------------------Gross National Product------------------------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 3662.2 | 2341.8 | 637.9 | -64.2 | 295.3 | 452.1 |
| 1985:1* | 3811.1 | 2446.7 | 646.8 | -74.5 | 320.0 | 455.3 |
| 2* | 3854.0 | 2508.6 | 643.2 | -94.0 | 325.2 | 486.8 |
| 3 | 3995.5 | 2604.1 | 650.1 | -87.0 | 331.6 | 496.7 |
| 4 | 4063.9 | 2638.6 | 662.8 | -80.2 | 336.3 | 506.5 |
| YEAR | 3930.5 | 2545.0 | 650.7 | -83.9 | 328.3 | 486.3 |
| % change from '84 | 7.3 | 8.7 | 2.0 | 30.7 | 11.2 | 7.6 |
| 1986:1 | 4078.9 | 2625.8 | 675.8 | -73.1 | 339.3 | 511.1 |
| 2 | 4163.4 | 2683.2 | 680.3 | -70.4 | 346.5 | 523.8 |
| 3 | 4250.9 | 2737.9 | 687.2 | -65.7 | 355.2 | 536.3 |
| 4 | 4328.4 | 2786.2 | 691.6 | -64.1 | 364.2 | 550.6 |
| YEAR | 4204.9 | 2707.9 | 683.7 | -68.3 | 351.3 | 530.4 |
| % change from '85 | 7.0 | 6.4 | 5.1 | -18.6 | 7.0 | 9.1 |
| 1987:1 | 4403.3 | 2824.5 | 711.8 | -60.1 | 369.5 | 557.6 |
| 2 | 4507.5 | 2895.8 | 723.5 | -57.2 | 381.2 | 564.2 |
| 3 | 4618.4 | 2965.3 | 737.8 | -53.4 | 392.3 | 576.4 |
| 4 | 4742.9 | 3041.1 | 763.4 | -56.2 | 405.7 | 588.9 |
| YEAR | 4567.2 | 2931.0 | 734.1 | -56.7 | 387.2 | 571.8 |
| % change from '86 | 8.6 | 8.2 | 7.4 | -17.0 | 10.2 | 7.8 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

August experienced an impressive increase of 37,000 jobs in manufacturing, taking some of the sting out of some economist's pessimism. Manufacturing is far from robust and hearty, but certainly not ailing as some would lead us to believe.

**KEDI**s long-term forecast for employment in manufacturing:

| | |
|---|---|
| 1985 | Stable, no more declines. |
| 1986 | Slight increases. |
| 1987 | More significant gains. |
| 1988 | Stable. |
| 1989 | Stable. |

During the balance of this decade, industries experiencing declines:

- Primary ferrous and nonferrous metals.
- Textiles, apparel and shoes.
- Tobacco and leather.

Stable employment through 1990 for:

- Rubber and plastics.
- Machinery, farm machinery and tractors.
- Chemicals and pharmaceuticals.
- Lumber, furniture and fixtures.

Look for increases in employment in the next five years for:

- Food and kindred products.
- Appliances.
- Aerospace and defense.
- Motor vehicles and parts.
- Service sector.

## TABLE 1.30

## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates

| INDICATOR | Population | Civil. labor force | *-------Employment-------* | | | Unemployment rate |
|---|---|---|---|---|---|---|
| | | | Total | Agricult. | Non-agric. | |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1984* | 237.4 | 113.5 | 105.0 | 3.4 | 101.6 | 7.52 |
| 1985:1* | 239.8 | 115.2 | 106.8 | 3.4 | 103.4 | 7.30 |
| 2* | 240.9 | 115.2 | 106.8 | 3.4 | 103.4 | 7.31 |
| 3 | 242.3 | 115.7 | 107.4 | 3.4 | 104.0 | 7.21 |
| 4 | 243.7 | 116.1 | 107.9 | 3.4 | 104.5 | 7.02 |
| YEAR | 241.7 | 115.5 | 107.2 | 3.4 | 103.8 | 7.21 |
| % change from '84 | 1.8 | 1.8 | 1.9 | 0.0 | 1.9 | -4.06 |
| 1986:1 | 244.5 | 116.4 | 108.1 | 3.4 | 104.7 | 7.14 |
| 2 | 245.5 | 117.7 | 109.5 | 3.4 | 106.1 | 6.97 |
| 3 | 246.4 | 118.1 | 109.9 | 3.4 | 106.5 | 6.92 |
| 4 | 247.7 | 119.0 | 110.6 | 3.4 | 107.2 | 7.04 |
| YEAR | 246.0 | 117.8 | 109.5 | 3.4 | 106.1 | 7.02 |
| % change from '85 | 1.8 | 1.9 | 2.0 | 0.0 | 2.0 | -2.74 |
| 1987:1 | 248.6 | 120.2 | 111.7 | 3.4 | 108.3 | 7.08 |
| 2 | 249.3 | 121.0 | 112.6 | 3.4 | 109.2 | 6.95 |
| 3 | 250.4 | 121.9 | 113.6 | 3.4 | 110.2 | 6.81 |
| 4 | 252.3 | 122.6 | 114.4 | 3.4 | 111.0 | 6.72 |
| YEAR | 250.2 | 121.4 | 113.1 | 3.4 | 109.7 | 6.89 |
| % change from '86 | 1.7 | 3.1 | 3.1 | 0.0 | 3.1 | -1.82 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - page 15

**Further declines in mortgage rates** spurs August sales up by 9.2% over July to a six year record high annualized at 3.43 million units. This is the fastest pace since November 1979. This surge has been helped along with only modest increases in prices despite demand, a sign that inventory adjustment is still taking place as builders are finally getting out from under an over-stocked position. New housing starts are constantly declining confirming **KEDI**s forecast that the **housing cycle is winding down.**

Housing Starts

(mil. units, seasonally adjusted)

| | Total | Single Family | Multi Family | Conventional Morgtgage Rate |
|---|---|---|---|---|
| 1985:1 | 1.793 | 1.112 | .681 | 13.28% |
| 1985:2 | 1.769 | 1.076 | .693 | 12.76% |
| 1985:3 | 1.636 | 1.035 | .601 | 12.58% |

Existing housing stock continues to sell briskly as affordability wins out over the high cost of new construction. Even so, the median price for a single-family home stands at $77,100 in August.

## TABLE 1.41

## HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1984* | 1.084 | .665 | .298 | 1.679 | 97.0 | 87.0 |
| 1985:1* | 1.112 | .681 | .291 | 1.709 | 99.6 | 87.9 |
| 2* | 1.076 | .693 | .285 | 1.731 | 101.1 | 90.5 |
| 3 | 1.035 | .601 | .278 | 1.496 | 104.5 | 95.1 |
| 4 | .958 | .582 | .269 | 1.478 | 104.9 | 95.4 |
| YEAR | 1.045 | .639 | .281 | 1.603 | 102.5 | 92.2 |
| % change from '84 | -3.6 | -3.9 | -5.8 | -4.5 | 5.7 | 6.0 |
| 1986:1 | .909 | .636 | .246 | 1.476 | 105.8 | 95.6 |
| 2 | 1.023 | .648 | .249 | 1.534 | 107.3 | 96.3 |
| 3 | 1.114 | .629 | .278 | 1.591 | 107.5 | 97.4 |
| 4 | 1.075 | .580 | .275 | 1.625 | 108.8 | 99.1 |
| YEAR | 1.031 | .623 | .262 | 1.556 | 107.3 | 97.1 |
| % change from '85 | -1.4 | -2.5 | -6.7 | -2.9 | 4.7 | 5.3 |
| 1987:1 | 1.106 | .640 | .263 | 1.613 | 109.9 | 100.5 |
| 2 | 1.220 | .673 | .297 | 1.722 | 112.6 | 102.7 |
| 3 | 1.288 | .685 | .311 | 1.890 | 117.5 | 103.8 |
| 4 | 1.146 | .661 | .295 | 1.841 | 118.9 | 104.5 |
| YEAR | 1.190 | .665 | .291 | 1.766 | 114.7 | 102.9 |
| % change from '86 | 15.4 | 6.7 | 11.3 | 13.5 | 6.9 | 5.9 |

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 17

**Detroit keeps pounding away with low interest rate** incentives **catching Japan with their kimonos down. So sorry,** no inventory--no sales. Japanese **assembled in the US** cars sold briskly, especially Nissan trucks from Tennessee.

In order to finance the low-interest incentives, GM has heightened sticker shock by price increases for 1986 in the 4-6% range, with Ford in the 2.5-6.5% bracket. So it would appear that Detroit increased prices enough to make room for future incentives, otherwise Americans simply wait for another round of low-interest incentives before buying new cars. Makes sense, doesn't it?

"Sales continue to outpace expectations but are beginning to cool off as dealers start to exhaust their supply of 1985 model cars," said Harvey Heinback, an auto industry analyst with Merrill, Lynch, Pierce Fenner & Smith, Inc. "Even with the winding down and the drop off in sales we expect will follow the end of the incentives, the strength of sales in the last 30 days will necessitate a slight upward revision in our full-year estimates," Mr. Heinbach concluded. He now expects domestic car sales of 8.1 million to 8.2 million units this year.

## TABLE 1.42

## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1984* | 10.4 | 8.0 | 2.4 | 1.4 | 8.0 | 3.3 |
| 1985:1* | 10.9 | 8.4 | 2.5 | 1.6 | 8.3 | 3.7 |
| 2* | 10.9 | 8.2 | 2.7 | 1.8 | 8.3 | 3.5 |
| 3 | 10.4 | 7.5 | 2.7 | 1.2 | 7.9 | 3.2 |
| 4 | 10.1 | 7.5 | 2.6 | 1.6 | 7.4 | 3.4 |
| YEAR | 10.6 | 7.9 | 2.6 | 1.6 | 8.0 | 3.5 |
| % change from '84 | 1.7 | -7.7 | 9.4 | 14.3 | -.3 | 4.5 |
| 1986:1 | 9.9 | 7.2 | 2.7 | 1.6 | 7.5 | 3.4 |
| 2 | 10.3 | 7.4 | 2.9 | 1.7 | 7.8 | 3.6 |
| 3 | 10.1 | 7.2 | 2.9 | 1.8 | 7.6 | 3.7 |
| 4 | 10.4 | 7.6 | 2.8 | 1.7 | 7.7 | 3.8 |
| YEAR | 10.2 | 7.4 | 2.8 | 1.7 | 7.7 | 3.6 |
| % change from '85 | -3.8 | -11.4 | 7.6 | 6.2 | -4.1 | 5.1 |
| 1987:1 | 10.3 | 7.5 | 2.8 | 1.6 | 7.7 | 3.5 |
| 2 | 10.8 | 7.6 | 2.9 | 1.7 | 7.6 | 3.7 |
| 3 | 11.1 | 8.2 | 2.9 | 1.6 | 8.2 | 3.9 |
| 4 | 11.0 | 8.3 | 2.7 | 1.8 | 8.4 | 3.9 |
| YEAR | 10.8 | 8.0 | 2.8 | 1.8 | 8.0 | 3.8 |
| % change from '86 | 6.1 | 6.1 | 0.0 | 5.9 | 4.2 | 3.4 |

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*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 19

It's an unfortunate fact of life that world economic wars occur when countries aren't shooting live ammunition at each other over some soon-forgotten cause. Man is a proud beast. Humility has its price when a nation of such rich heritage must bow to the Far East and accept the fact that we have been outdone by our own doings.

We were quick to brag to the world about our technological superiority--and the Japanese soaked it up, dressed it up in different clothes and sold it back to us and the rest of the world.

The US is now running trade deficits becoming a debtor nation for the first time in US history. Throughout the 20th Century, the US has been the world's leading producer of high technology and capital goods. This has changed thanks to Japan and it's tough medicine for Americans to swallow. The threat to US dominance comes from several Far Eastern countries: Japan, South Korea, Twaiwan and Singapore. As technology becomes rapidly imitated, duplicated and dissiminated, developing countries catch on quickly.

The Administration's continuous **battle of the budget** draws a lot of groaning from state and local government. The truth reveals most state and local budgets to be in sound fiscal condition in the face of declining federal revenue.

**Uncle Sam cut backs:**

| | State-Local Revenues from federal government |
|---|---|
| 1980 | 31.7% |
| 1984 | 23.7% |
| 1986 (projected) | 22.0% |

### TABLE 1.50

### FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates

| | *-----FEDERAL----------* | | | *---STATE AND LOCAL----* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 315.0 | 70.9 | -175.7 | 120.3 | 19.1 | 53.0 |
| 1985:1* | 362.2 | 67.4 | -165.1 | 126.8 | 17.9 | 53.7 |
| 2* | 318.3 | 66.1 | -210.1 | 129.9 | 17.6 | 50.3 |
| 3 | 360.1 | 65.3 | -201.3 | 133.2 | 18.5 | 52.4 |
| 4 | 365.4 | 70.2 | -197.1 | 136.0 | 19.8 | 53.8 |
| YEAR | 351.5 | 67.2 | -193.4 | 131.5 | 18.4 | 52.5 |
| % change from '84 | 11.6 | -5.1 | 10.1 | 9.3 | -3.4 | -.8 |
| 1986:1 | 375.5 | 74.1 | -188.4 | 137.7 | 21.1 | 55.3 |
| 2 | 380.2 | 76.3 | -183.5 | 139.4 | 22.0 | 56.2 |
| 3 | 385.1 | 80.5 | -176.2 | 143.1 | 22.5 | 58.8 |
| 4 | 394.6 | 81.4 | -175.1 | 149.0 | 23.1 | 60.0 |
| YEAR | 383.9 | 78.1 | -180.8 | 142.3 | 22.2 | 57.6 |
| % change from '85 | 9.2 | 16.1 | -6.5 | 8.2 | 20.2 | 9.6 |
| 1987:1 | 402.4 | 83.0 | -171.4 | 150.0 | 23.9 | 61.0 |
| 2 | 412.8 | 86.5 | -168.1 | 152.9 | 24.6 | 63.2 |
| 3 | 420.6 | 88.7 | -160.3 | 155.6 | 25.7 | 65.0 |
| 4 | 431.0 | 90.2 | -151.2 | 158.2 | 26.2 | 68.4 |
| YEAR | 416.7 | 87.1 | -162.8 | 154.2 | 25.1 | 64.4 |
| % change from '86 | 8.6 | 11.6 | -10.0 | 8.3 | 13.2 | 11.9 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 21

Fifty years ago we knew little of the **old world** as we naively eyed it. There was no electronic news with instant replays of the joys and sorrows surrounding the globe. At best there was an occasional picture in the newspaper [weeks or months old] after crossing continents and oceans by surface. So, the **old world** existed in our minds, but mainly to be forgotten as dreams gone sour by immigrants who were building solid lives on streets paved of gold.

When the golden streets showed a slight tarnish, the new-found power of the labor unions flexed it's muscles and America's mood turned to gloom and **protectionism.** The climate was right for Congress to legislate. It did! Let's hope it doesn't repeat this same mistage in the form of protectionist tariffs that could plunge the world into economic chaos and bring about lasting depression.

**KEDI** forecast data points to a good outlook for Personal Income, Personal Disposable Income and Compensation of Employees.

- Stable increases in line with overall growth and employment increases.
- Good outlook for average earnings.

The same optimism holds for **corporate profits** with a slight slowdown through the balance of this year, then picking up through 1986 and 1987.

## TABLE 1.60

## INCOME

Quarterly data are seasonally adjusted at annual rates

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1984* | 3012.1 | 2576.9 | 2173.2 | 146.3 | 156.1 | 368.5 |
| 1985:1* | 3133.3 | 2644.3 | 2272.7 | 137.0 | 118.6 | 374.6 |
| 2* | 3185.9 | 2737.7 | 2305.9 | 137.4 | 139.4 | 378.5 |
| 3 | 3331.6 | 2838.3 | 2338.2 | 140.2 | 140.1 | 382.3 |
| 4 | 3403.1 | 2901.7 | 2362.3 | 147.9 | 164.2 | 386.2 |
| YEAR | 3263.5 | 2780.5 | 2319.8 | 140.6 | 140.6 | 380.4 |
| % change from '84 | 8.3 | 7.9 | 6.7 | -3.9 | -9.9 | 3.2 |
| 1986:1 | 3390.1 | 2876.9 | 2402.8 | 150.3 | 150.3 | 389.4 |
| 2 | 3461.1 | 2941.5 | 2463.1 | 152.6 | 155.1 | 392.7 |
| 3 | 3525.4 | 2997.2 | 2409.7 | 160.8 | 154.2 | 397.5 |
| 4 | 3595.5 | 3051.9 | 2562.4 | 166.2 | 158.3 | 404.0 |
| YEAR | 3493.0 | 2966.9 | 2459.5 | 157.5 | 154.5 | 395.9 |
| % change from '85 | 7.0 | 6.7 | 6.0 | 12.0 | 9.9 | 4.1 |
| 1987:1 | 3651.1 | 3098.7 | 2618.8 | 169.4 | 163.0 | 409.1 |
| 2 | 3739.4 | 3173.7 | 2660.9 | 172.6 | 165.2 | 413.5 |
| 3 | 3825.4 | 3249.2 | 2743.2 | 178.4 | 170.1 | 421.9 |
| 4 | 3918.0 | 3328.8 | 2812.4 | 185.6 | 173.1 | 425.8 |
| YEAR | 3783.5 | 3212.6 | 2708.8 | 176.5 | 167.8 | 417.6 |
| % change from '86 | 8.3 | 8.3 | 10.1 | 12.1 | 8.7 | 5.5 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 1.70 - page 23

World depression would emerge if protectionist measures, along the Smoot-Hawley model were enacted. An open world trading system, however, that would encourage efficiency would stimulate real growth, output, income and jobs. For this to happen, the overvaluation of the US dollar must be adjusted against the Japanese Yen.

Finance Ministers and Chiefs of Central Banks from five powerful industrialized nations met recently in New York to discuss the over-inflated value of the dollar on world markets. In light of US Congressional mood toward legislating protectionist tariffs, it appears that the powers that be in the world agree that currency intervention is the wiser approach. The alternative [grim as it may be with certain disaster] is for nationalism and protectionism to grip the free world creating instant enemies. It was just this that lead to World War II following the infamous Smoot-Hawley Act of 1930 that galvenized expansionist movements in Western Europe and Japan.

While our Western allies listen to our problems, and seek intelligent solutions to the domestic economic problems of the United States, don't expect them to devalue their currencies **just to be polite.** The dollar is where it should be with most European currencies. Further revaluation of the dollar would hurt Great Britian's exports to the US. Foreign Ministers have to keep their sagging economies afloat as best they can.

## TABLE 1.70

## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. | Comm. & indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1984* | 545.0 | 2277.4 | 460.5 | 470.7 | 416.8 | 555.3 |
| 1985:1* | 568.1 | 2416.4 | 472.9 | 473.1 | 423.0 | 559.3 |
| 2* | 582.6 | 2448.2 | 497.4 | 478.4 | 423.1 | 567.1 |
| 3 | 606.5 | 2512.3 | 504.6 | 483.1 | 428.0 | 576.4 |
| 4 | 610.1 | 2559.3 | 512.4 | 488.2 | 432.6 | 582.1 |
| YEAR | 591.8 | 2484.1 | 512.4 | 488.2 | 432.6 | 582.1 |
| % change from '84 | 8.6 | 9.1 | 11.3 | 3.7 | 3.8 | 4.8 |
| 1986:1 | 614.9 | 2604.8 | 517.6 | 490.7 | 435.8 | 589.3 |
| 2 | 624.3 | 2657.1 | 522.3 | 495.3 | 441.2 | 590.4 |
| 3 | 630.5 | 2707.0 | 527.8 | 511.2 | 447.6 | 595.6 |
| 4 | 634.7 | 2788.7 | 533.4 | 514.6 | 449.3 | 607.2 |
| YEAR | 626.1 | 2689.4 | 533.4 | 514.6 | 449.3 | 607.2 |
| % change from '85 | 5.8 | 8.3 | 4.1 | 5.4 | 3.9 | 4.3 |
| 1987:1 | 630.6 | 2842.6 | 540.1 | 519.0 | 452.7 | 611.2 |
| 2 | 645.3 | 2909.8 | 545.6 | 523.6 | 457.3 | 616.5 |
| 3 | 650.6 | 2963.7 | 551.7 | 528.7 | 461.2 | 624.3 |
| 4 | 657.8 | 3018.1 | 557.8 | 541.1 | 470.7 | 637.2 |
| YEAR | 646.1 | 2933.6 | 557.8 | 541.1 | 470.7 | 637.2 |
| % change from '86 | 3.2 | 9.1 | 4.6 | 5.1 | 4.8 | 4.9 |

*Historical data.
s.a.: seasonally adjusted at annual rates.
n.s.a.: not seasonally adjusted.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

In **KEDIs** opinion, Fed Chairman Volcker will push for realistic downward adjustments in the dollar against Japanese Yen, but will stabilize against most western currencies, especially Germany and France.

Forecast data for 1986 and 1987 has been reduced slightly for interest rates in light of anticipated new policy agreed upon by the in recent financial summit meeting in New York.

While the Fed has been generous this year in stimulating the growth of money, **KEDI** urges moderation and a **look** before you **leap** by easing monetary policies further. There is no evidence that the economy's pump needs additional priming at this time.

"Stimulating the American economy in any substantial way would only stimulate more buying of imports, at least in the short run," according to Robert T. Parry, senior vice president and chief economist at the Security Pacific National Bank. Other analysts agree that restrictions on capital outflows from other countries would force US interest rates back up.

The Fed should not push interest rates down too much or two quickly. They are now close to European rates. Further declines in US interest rates can take place **only** if Western European countries do the same. **KEDI** does not anticipate such actions from the Europeans.

No significant changes in stock market indexes.

## TABLE 1.80

## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1984* | 9.52 | 12.04 | 13.84 | 12.65 | 12.36 | 160.50 |
| 1985:1* | 8.18 | 10.54 | 13.28 | 12.06 | 11.41 | 177.30 |
| 2* | 7.52 | 10.20 | 12.76 | 11.63 | 11.15 | 183.48 |
| 3 | 7.49 | 9.68 | 12.58 | 11.52 | 10.72 | 190.21 |
| 4 | 7.64 | 9.46 | 12.63 | 11.26 | 10.42 | 188.11 |
| YEAR | 7.71 | 9.97 | 12.81 | 11.62 | 10.93 | 184.78 |
| % change from '84 | -19.0 | -17.2 | -7.4 | -8.2 | -11.6 | 15.1 |
| 1986:1 | 7.83 | 9.34 | 12.57 | 11.08 | 10.61 | 187.46 |
| 2 | 7.56 | 9.57 | 12.41 | 10.92 | 10.40 | 184.53 |
| 3 | 7.37 | 9.38 | 11.86 | 10.61 | 10.09 | 188.71 |
| 4 | 7.52 | 9.42 | 11.50 | 10.20 | 10.05 | 186.24 |
| YEAR | 7.57 | 9.43 | 12.09 | 10.70 | 10.29 | 186.74 |
| % change from '85 | -1.8 | -5.4 | -5.7 | -7.9 | -5.8 | 1.1 |
| 1987:1 | 7.36 | 9.27 | 11.31 | 10.34 | 9.94 | 183.28 |
| 2 | 7.09 | 9.04 | 11.06 | 10.36 | 9.66 | 192.62 |
| 3 | 6.92 | 9.06 | 11.24 | 10.38 | 9.85 | 195.49 |
| 4 | 6.54 | 9.29 | 11.78 | 10.65 | 10.14 | 198.73 |
| YEAR | 6.98 | 9.16 | 11.35 | 10.43 | 9.90 | 192.53 |
| % change from '86 | -7.8 | -2.8 | -6.1 | -2.5 | -3.8 | 3.1 |

*Historical data.

## 2.00 THE KENT ECONOMIC FORECASTING SYSTEM (CONTINUED)

## 9.00 THE KENT ECONOMIC FORECASTING SYSTEM AND THE KENT MODEL

The Kent Economic Forecasting system contains many forecasting models developed by **KEDI**, Inc., for specific **KEDI** clients.

Typical forecasting models developed include:

- Coal production, distribution and consumption.
- Railroad transporation.
- Production and distribution of steel, iron ore, copper, textiles, soft drinks, automobiles, and housing.

The largest of these models is the **Kent Model**, a forecasting device for the US economy. Kent Model forecasts are produced every month and selected forecast data generated by the Kent Model are published in this Survey. Other forecast data are supplied to **KEDI** clients on a subscription basis.

### SCOPE OF THE KENT MODEL

At the present time the **Kent Model** generates a series of 43,935 measures of economic activity in the United States. It is the largest forecasting system in the US compared to smaller models of 1000-1200 measures, such as the:

- Wharton Model, managed by Wharton Econometric Associates.
- DRI Model, managed by Data Resources, Inc.
- Chase Model, managed by Chase Econometrics.

### SPECIFIC MEASURES OF A MODEL

Examples of specific measures of the Kent Model include:

- Numbers of employed persons in industries.
- Output of metalurgical coal.
- Sales of stainless steel products.
- Total outputs of industries.
- Inflation rate.
- Exports, imports, unemployment rate, etc.

## DIFFERENCE BETWEEN THE KENT MODEL AND THE KENT ECONOMIC FORECASTING SYSTEM.

The **Kent Economic Forecasting System** includes the **Kent Model** as the center of the system. Forecast data generated from the **Kent Model** are used as entering data to other models of the System. GNP data for the US generated by the **Kent Model** serve as input data to forecast the production of surface coal in US Mines.

The **Kent Model** serves as the **parent model**, while other specialized models serve as **satelite models**, comprising the **Kent Economic Forecasting System.** Satelite models are either managed by **KEDI**, or by it's clients. When a model is owned by the client, **KEDI** supplies selected forecast data from the Kent Model and the client feeds them into their own satelite model.

| **KEDI**, Inc. | **CLIENT** |
|---|---|
| THE KENT ECONOMIC FORECASTING SYSTEM: | |
| The Kent Model . . . . . . . . | Receives selected forecast data from the Kent Model for his own use. |
| Satelite Model . . . . . . . . | Receives forecast data from the satelite model for his own use. |
| OR: | |
| The Kent Model . . . . . . . . | Receives forecast data from the Kent Model and feeds them into his satelite model and performs his own forecast. |

## 3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Personal Consumption Expenditures on Durables in 1984** has been selected for comparison. The actual figure is the May 1985 estimate of the U. S. Department of Commerce, (**Survey of Current Business**, May 1985, Table 1.1). Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

**COMPARISONS OF ACCURACY OF PREDICTIONS**
(Personal Consumption Expenditures on Durables, 1984, bil. $)
**Actual figure: 318.8**

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Georgia State University, p. 21 | 11/83 | 322.0 | +1.1 |
| Manufacturers Hanover Trust Co, p. 23 | 11/9/83 | 311.5 | -2.3 |
| Research Seminar in Quantitative Economics, Univ.of Michigan, p.24 | 11/17/83 | 317.5 | +.5 |
| UCLA Business Forecasting Project, p.26 | 12/83 | 319.5 | +.2 |
| Citicorp Information Service, p. 27 | 12/1/83 | 321.4 | +.8 |
| Metropolitan Life Insurance Co., p.28 | 12/1/83 | 309.5 | -2.9 |
| Fidelity Bank, p. 32 | 12/19/83 | 310.6 | -2.6 |
| Evans Economics, Inc., p. 34 | 12/22/83 | 297.6 | -6.6 |
| **Kent Economic and Development Institute, p. 39** | **1/1/84** | **311.0** | **-2.4** |
| Standard & Poor's Corp, p. 44 | 1/12/84 | 318.4 | -.1 |
| Morgan Guaranty Trust Co of NY, p. 43 | 1/12/84 | 315.7 | -.7 |

## 4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

**HISTORICAL DATA SOURCES**

| Table Number | Data Series | Source |
|---|---|---|
| **1.11 Selected Indicators of Real Growth** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| **1.12 Real GNP** | Gross national product, 1972 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| **1.21 Prices** | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | **Implicit price deflators:** GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| **1.22 Nominal GNP** | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |
| **1.30 Employment and Labor** | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal and State Budgets | **Federal govt:** Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | **State & local govt:** Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |